# NRRIT

## National Railroad Retirement Investment Trust

## Annual Management Report for Fiscal Year 2009 Required by Public Law 107-90, The Railroad Retirement and Survivors' Improvement Act of 2001

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# ANNUAL MANAGEMENT REPORT OF THE NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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## 1) Introductory Statement

### *a) Overview*

Fiscal year 2009 (October 1, 2008 - September 30, 2009) was a year of extraordinary challenges for global financial markets and consequently for the National Railroad Retirement Investment Trust (the "Trust"). Like most pension funds and other large institutional investors, the Trust saw a significant decline in market values during the first half of the fiscal year. Beginning in March, the Trust benefited significantly from the recovery in the US and overseas investment markets and was able to offset much of the decline from the first half of the fiscal year.

Overall, during fiscal year 2009, the net asset value of Trust-managed assets decreased from $25.3 billion on October 1, 2008 to $23.3 billion on September 30, 2009. This reduction in asset value includes $1.6 billion that the Trust transferred to the US Treasury (the "Treasury") for railroad retirement (tier 2) benefit payments during the fiscal year. The rate of return on Trust-managed assets for the year (net of fees) was -0.7%.

**Market Value of Trust-Managed Assets**

**($ in billions)**

| | | |
|---|---|---|
| October 1, 2008 | | $25.3 |
| Transfers from Trust to Treasury | $(1.6) | |
| Change in value | (0.4) | |
| Net Increase/(Decrease) | | (2.0) |
| September 30, 2009 | | $23.3 |

In addition to Trust-managed assets, some other assets of the railroad retirement system are retained by the Railroad Retirement Board as reserves in accounts at the Department of Treasury. These reserves are made up of recent payroll tax contributions from rail employers and employees as well as assets that the Trust has transferred to the Treasury to pay future benefits. In order to understand the overall financial position of the railroad retirement system, it is important to consider both the Trust-managed assets and the system reserves held at the Treasury.

During its seven years of investment operations, the Trust has transferred $7.9 billion to the Treasury to pay railroad retirement benefits. Even with these benefit payments, total railroad retirement system assets (Trust-managed assets plus reserves maintained at the Treasury) grew from $20.7 billion in 2002 to $24.6 billion as of the end of fiscal year 2009. As such, notwithstanding the challenges of the past two fiscal years, the Trust has made a significant contribution to the increase in total assets available to the railroad retirement system.

**Trust-Managed Assets and RRB Assets Held in Reserve**
**($ in billions)**

| | | |
|---|---|---|
| February 1, 2002 (total system assets at Trust inception) | | $20.7 |
| Net Transfers for payment of RR Benefits | $ (7.9) | |
| Change in value* | 11.8 | |
| Net increase/(decrease) | | 3.9 |
| September 30, 2009 | | $24.6 |

* This includes investment return, payroll tax revenues, additional benefit payments and administrative expenses.

### *b) 2009 Market Volatility*

Over the past seven years, the Trust has deployed assets received from the Treasury into a diversified portfolio of US and non-US equity and US and non-US fixed income securities. Over time, the Trust has furthered that diversification by allocating a percentage of the portfolio to private equity, real assets and commodities. As mandated by its statute, the Trust has avoided undue concentration of investment in any asset class, type of security or market sector.

This policy of broad diversification is intended to serve the Trust well in strong markets and to protect its assets from disproportionate market shocks in volatile periods, the expectation being that not all asset classes will experience sharp downturns simultaneously. As part of this diversification process, the Trust holds tens of thousands of different securities selected by its numerous investment managers, pursuing many different strategies, for the Trust portfolio. Over the first five months of the past fiscal year, the Trust's returns reflected the continued decline of the financial markets as a whole. While diversification of the investment portfolio is often an effective tool to spread market risk among a broad group of asset classes, as discussed above, it cannot prevent a reduction in overall asset value when all asset classes experience significant declines, as was the case in the relevant period of fiscal year 2009.

The Trust's Board and its investment staff carefully monitored the activities of the Trust's investment managers throughout the fiscal year, examining portfolio weights in each asset class, holdings within each asset class and all active managers, in order to evaluate strategy and performance.

### *c) Board and Committee Matters*

During this fiscal year, the Board and its investment staff took steps to review and update its asset allocation policy, and in March of 2009, the Board agreed to expand the policy ranges for each asset class to provide the Trust greater rebalancing flexibility during the volatile period for the financial markets. In addition, as is discussed later, in September 2009, the Board and its investment staff completed a detailed assessment of alternative long term performance objectives, the types of investment strategies needed to achieve each alternative objective, the relative levels of return and risk, and the organizational resources needed for each approach.

The Board of Trustees met 15 times during the course of the year to consider the various investment and management issues that are discussed in this eighth Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibilities. This report and its various appendices provide information on the operations and financial status of the Trust for the fiscal year, including the report of the audit of the financial statements as required by the Trust's enabling statute.

## 2) Operations of the Trust: Administrative Matters

### *a) Trustee Update*

In February 2009, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2009. Railroad management appointed Mr. James A. Hixon, Executive Vice President Law and Corporate Relations, Norfolk Southern Corporation, to a three-year term that expires on January 31, 2012. Railway labor unions appointed Mr. George J. Francisco, Jr., President, National Conference of Firemen and Oilers-SEIU, to a new three-year term that expires on January 31, 2012. In addition, the Trustees selected Mr. Bernie Gutschewski, Vice President-Taxes, Union Pacific Corporation, as the Chair of the Board of Trustees for the period February 1, 2009-January 31, 2010.

Mr. Hixon and Mr. Francisco joined the following five members of the Board: For terms expiring on January 31, 2010: Mr. William H. Sparrow, CSX Corporation (retired); and Mr. Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railroad Signalmen. For terms expiring on January 31, 2011: Mr. Gutschewski, Mr. Joel Parker, Special Assistant to the President and International Vice President, Transportation Communications International Union (TCU/IAM), and Mr. John W. MacMurray, the Independent Trustee.

Biographical information on the Trustees can be found in Appendix J.

### *b) Coordination with Federal Government Agencies*

Throughout the fiscal year, the Trust maintained regular communications with the Railroad Retirement Board ("RRB") and the Treasury on all matters relating to the transfer of monies between the various RRB accounts at the Treasury and the Trust. In addition, the Trust transmitted all monthly data required pursuant to the Memorandum of Understanding ("MOU") entered into in 2002 with these entities and the Office of Management and Budget ("OMB"). The MOU outlines the budgetary, transfer, accounting, and financial reporting responsibilities for assets held by the Trust and railroad retirement system assets held within the Treasury. The MOU requires the Trust to report on a monthly basis: receipt and disbursement of funds, purchases and sales of assets, earnings and losses on investments, value of investments held, and administrative expenses incurred. A copy of the MOU is included in Appendix C.

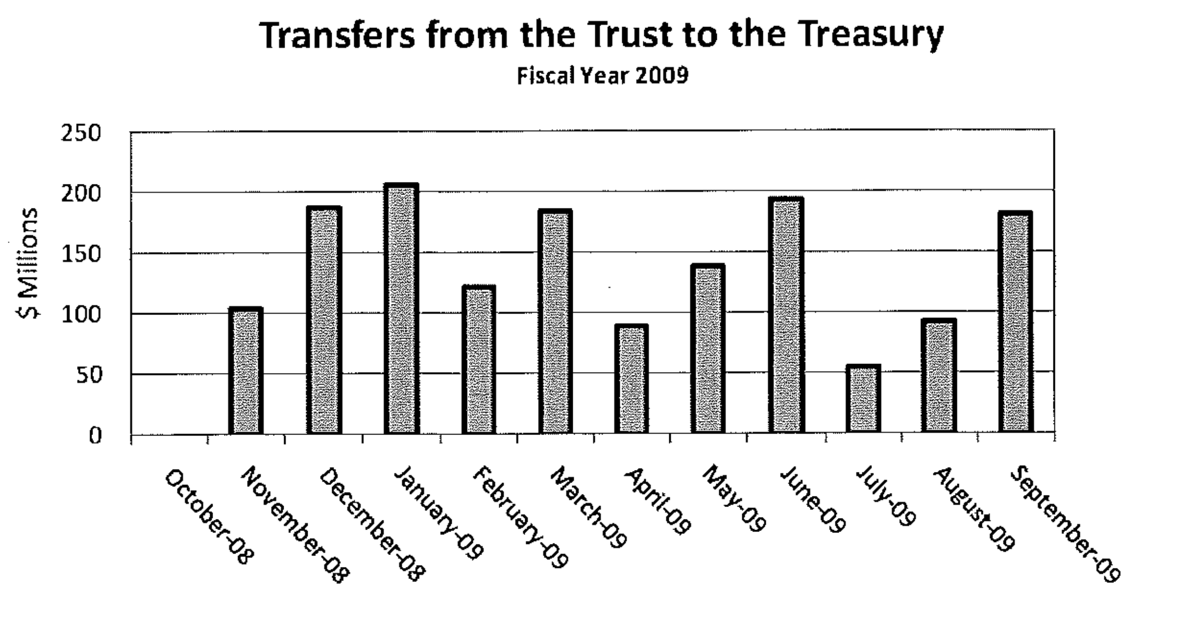
Pursuant to its established practice of periodic meetings with RRB, during fiscal year 2009, the Trustees, the Chief Executive/Investment Officer and Trust legal counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel to review the investment and administrative activities of the Trust. Senior staff of the two organizations and Trust legal counsel conferred after each meeting of the Trust Board. The Trustees and the Members of the RRB met twice during the year. The Chair of the Trust, senior staff and Trust legal counsel also participated in quarterly telephone conference calls with the RRB Board members and General Counsel to discuss Trust investment and administrative matters. In addition, the Trust prepared Quarterly Updates that were transmitted to the Congressional committees of jurisdiction and posted on the RRB website to be available to all other interested parties. In response to requests made to the Trust, presentations describing the history, structure and functioning of the Trust were made to staff of the Presidential Transition Team and to staff of the US Senate Special Committee on Aging.

During 2009, the Trust also consulted with the RRB on its fiscal year-end audit and reporting processes to facilitate the transmittal of fiscal year audited net asset data of the Trust to the RRB by November 15 for use in the year-end Financial Report of the United States. In addition, the Trust also provided audited financial asset data to the RRB as of December 31, 2008 for use in the preparation of the RRB's annual Statement of Social Insurance.

### *c) Transfers to and from the Treasury*

The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received $21.3 billion of railroad retirement system funds. The Trust has received no transfers from the Treasury since the end of fiscal year 2004. The funds transferred to the Trust through fiscal year 2004 consisted primarily of assets transferred from the Railroad Retirement Account ("RRA"), and a smaller amount from the Social Security Equivalent Benefit ("SSEB") Account. The RRA assets were invested in a diversified portfolio in accordance with the Trust's *Investment Guidelines,* while the funds received from the SSEB Account were invested in federal securities as required in the Act.

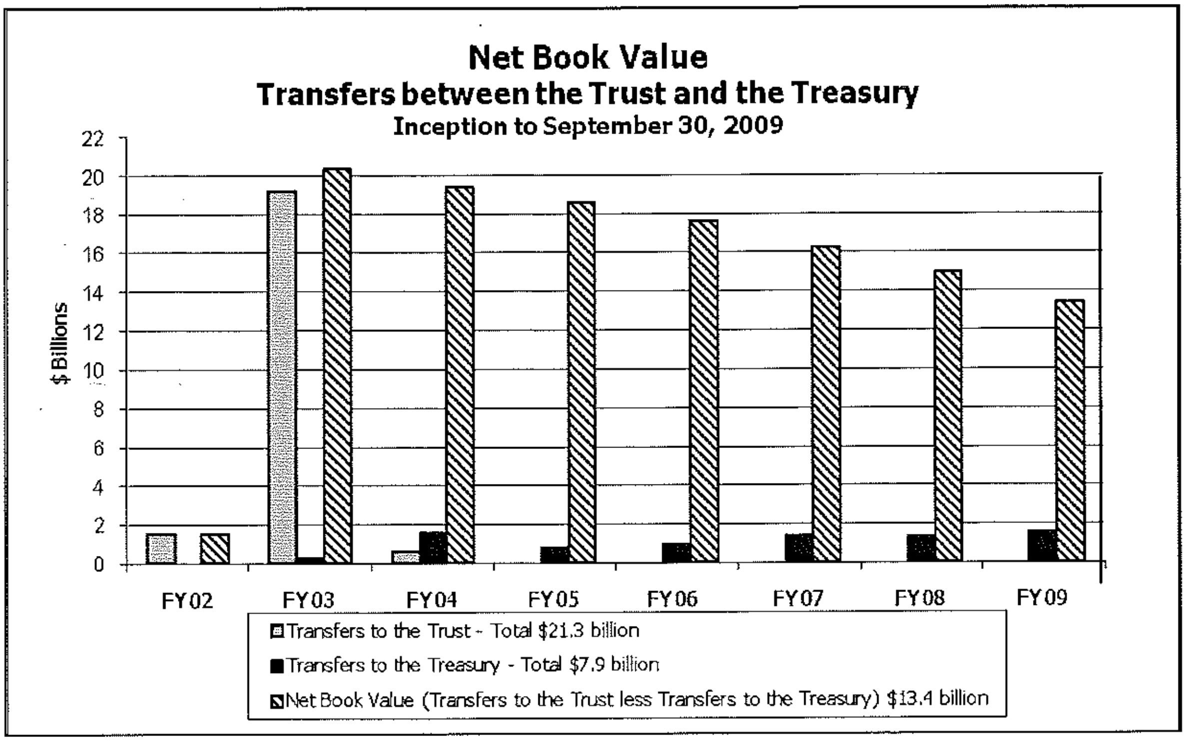
The Act also provides for the transfer from the Trust to the Treasury amounts necessary to pay RRA benefits under the Act. During fiscal year 2009, the Trust transferred a total of $1.6 billion to the Treasury for payment of RRA benefit obligations. The following chart displays the individual transfers from the Trust to the Treasury in fiscal year 2009.



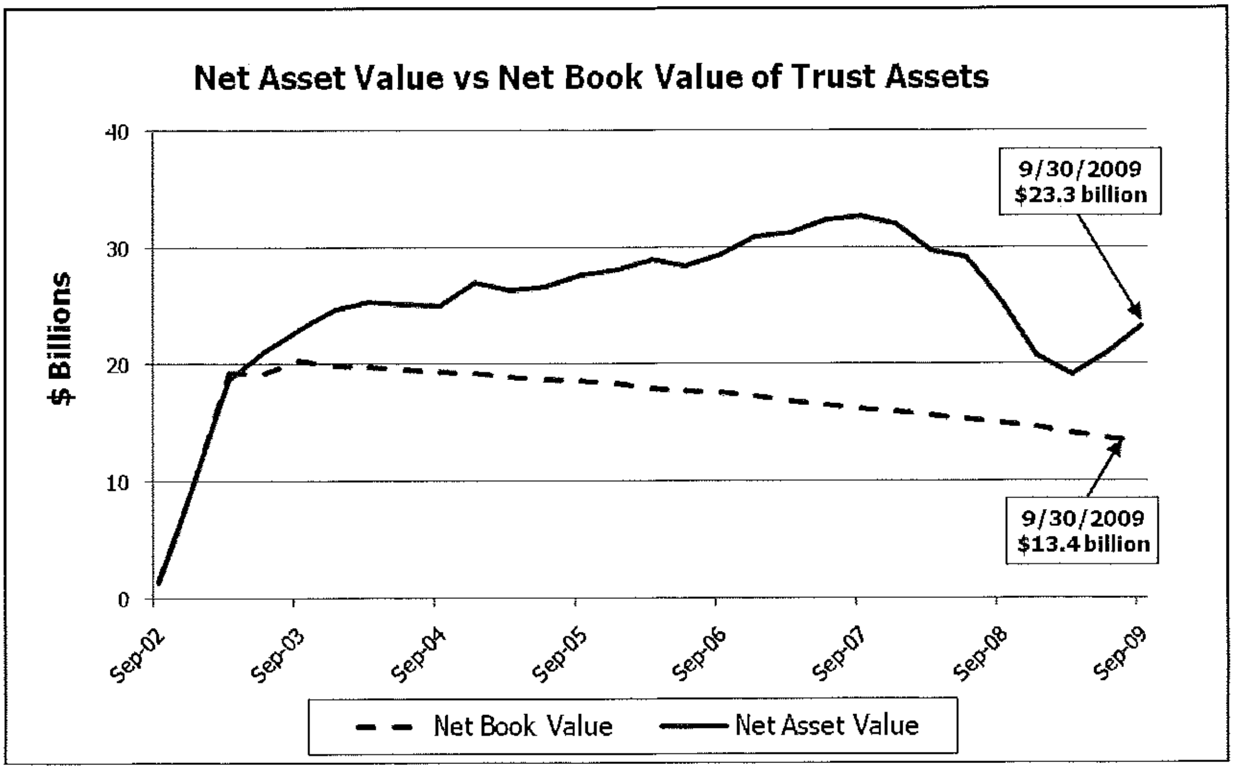

Note: Transfers are made on the first business day of each month unless the first falls on a Saturday. If the first falls on a Saturday, the transfer is made on the last business day of the prior month. No transfer was required in October 2008.

*Summary of transfers:* From its inception in February 2002 to September 30, 2009, the

Trust received $21.3 billion from the Treasury and transferred $7.9 billion to the Treasury. The net book value of funds received from the Treasury since inception, therefore, is $13.4 billion. The following graph displays the transfers between the Trust and Treasury for each fiscal year since inception.




The assets received by the Trust have been invested in a diversified multi-asset class portfolio in accordance with the Trust's investment policy. This diversification of assets away from the prior all-Treasury-securities portfolio has allowed the Trust's assets to grow beyond their original book value. As of September 30, 2009, the net asset value of the Trust-managed assets totaled $23.3 billion, representing an increase of $9.9 billion above the net book value of assets transferred to the Trust for investment. The following chart reflects the growth of the Trust's assets, comparing the net book value of assets received by the Trust to the net asset value of those assets at the end of each quarter since September 30, 2002.




### *d) Account Benefits Ratio*

The funds available to pay railroad retirement benefits and administrative costs include assets held in the RRA and the SSEB Account and assets held by the Trust. Section 204 of the Act requires that amounts in the RRA and assets held by the Trust be included in the annual calculation of the account benefits ratio ("ABR"). The ABR is the ratio of the combined fair market value of RRA and Trust assets as of the close of the fiscal year to the total benefits and RRB and NRRIT expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the 10-year average of the ABR, is used to determine the tier 2 tax rates for railroad employers and employees.

As provided in the Act, the RRB computed the account benefits ratio for fiscal year 2009 and certified the ratio to the Secretary of the Treasury on October 27, 2009. The Secretary determined the AABR for fiscal year 2009 and on November 27, 2009 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2010. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The account benefits ratio declined from 6.09 for fiscal year 2008 to 5.33 for fiscal year 2009. The ten-year average account benefits ratio declined from 6.9 at September 30, 2008 to 6.8 at September 30, 2009.

### *e) NRRIT Staff*

NRRIT staff is comprised of professionals in three major areas of responsibility: investments, operations and accounting. The investment staff reports to a Senior Managing Director – Investments. The operations staff reports to the Senior Operating Officer and the accounting staff to the Senior Accounting Officer. All senior officers report to the Chief Executive Officer/Chief Investment Officer ("CEO/CIO"). The CEO/CIO and staff are accountable to the Board of Trustees.

Investment management personnel include Directors who are responsible for each major asset class. Working with the Directors are investment analysts assigned to specific asset classes. Operations staff is responsible for tracking and monitoring trust assets, as well as other operational functions such as information technology, office management, and human resources. The accounting staff interacts with all auditors, and is responsible for financial reporting.

Biographical information on the Trust's staff members can be found in Appendix J.

## 3) Operations of the Trust: Investment Matters

### *a) Overview*

During the first half of fiscal year 2009, the Trust encountered a continuation of the capital markets turmoil which began shortly before the end of fiscal year 2008. Indicative of this turbulence, the S&P 500 US stock index fell 42% from the beginning of the fiscal year to its low for the year on March 9, 2009. At this point, the S&P 500 was down 57% from its record high in October of 2007 and at a low not seen since September of 1996. The second half of the fiscal year saw the capital markets rebound substantially as government actions to ease the liquidity crisis began to take hold and markets began to function more normally. Exemplifying this rebound, the S&P 500 US stock index increased from its low on March 9, 2009 and by the end of NRRIT's fiscal year was only 9% below its year-earlier level, having recovered most of its previous 42% drop.

The Trust, meanwhile, benefitted from its asset class diversification and ended the fiscal year with an investment return of -0.7%. Consistent with its long-term investment orientation, the Trust maintained its exposure across asset classes, allowing it to benefit from recoveries in multiple markets while avoiding the risk associated with concentration in any one market. At the same time, the Trust remained focused on ensuring sufficient levels of liquidity to meet all Trust needs by maintaining appropriate levels of cash during another volatile year.

In September 2009, the Board and its investment staff completed a detailed assessment of alternative long term performance objectives, the types of investment strategies needed to achieve each alternative objective, the relative expected levels of return and risk, and the organizational resources needed for each approach, in order to determine an appropriate investment goal that could be achieved with an acceptable balance of return and risk.

### *b) Investment Plan: Structure*

The Trust's asset class structure has developed over the seven years since September 2002 from a starting portfolio which was all government securities, to a simple three-asset-class structure, and finally to a structure which is more fully diversified across geography, capitalization size, investment style, credit quality and other characteristics. The Trust's *Investment Guidelines* specify the neutral target allocation and approved ranges for each asset class as well as rules for rebalancing back towards these neutral targets as market valuations change. The Investment Guidelines also provide for a policy benchmark by asset class to measure actual Trust performance against an objective standard. The Trustees approved the current Long-Term Target Asset Allocation on September 16, 2008. On March 18, 2009, the Trustees approved a revision to the asset class target ranges to provide for greater rebalancing flexibility during periods of increased market volatility. (The asymmetry of some target ranges is driven by considerations such as illiquidity and desired long-term exposure.)

**_Current Long-Term Target Asset Allocation_**

**_(Approved March 18, 2009)_**

| Asset Class | Target | Range |
|---|---|---|
| US Equity | 26% | 20-33% |
| Non-US Equity | 22% | 15-27% |
| Private Equity | 10% | 0-15% |
| US Fixed Income | 17% | 11-25% |
| Non-US Fixed Income | 10% | 4-15% |
| Real Estate | 10% | 0-15% |
| Commodities | 5% | 2-7% |
| Opportunistic | | 5-20% |

The Trust's Investment Guidelines address opportunistic investments, for which no specific target allocation is set. This category will be utilized for investments that are incompatible with the criteria for the other primary asset classes yet are believed to offer the Trust an attractive risk-adjusted investment return, low correlation with other investments, or other attributes that will help the Trust achieve its strategic investment objectives, and also includes cash. The Trust's *Investment Guidelines* are included in Appendix B.

### *c) Investment Plan: Implementation*

**US Equity:** Within the Trust's US Equity portfolio, one existing active manager was dropped as a result of the investment manager's decision to close their product, and two new non-securities lending index fund vehicles were added. The Trust ended fiscal year 2009 with 20 active and six passive managers in US equity. At the end of the fiscal year, 71% of the Trust's US equity allocation was actively managed.

**Non-US Equity:** The non-US equity allocation is invested primarily by two managers in nine index fund products, including two new non-securities lending index funds. The number of active managers remains at two, as no new active managers were hired during fiscal year 2009. However, during the year, the Trust initiated a search for new emerging market active managers and new active managers will likely be funded during fiscal year 2010. At the end of the fiscal year, 14% of the Trust's non-US equity allocation was actively managed.

**US Fixed Income:** During the fiscal year, the Trust added six high yield managers to actively manage the assets formerly invested in a high yield index fund, and closed the index fund account. Three investment-grade managers were terminated due to changes in manager personnel and performance-related issues. The Trust ended fiscal year 2009 with 11 active managers and 100% of the Trust's US fixed income allocation was actively managed.

**Non-US Fixed Income:** No new managers were hired in this asset class. At the end of the fiscal year, this asset class had nine active managers and 100% of the Trust's non-US fixed income allocation was actively managed.

**Commodities:** The Trust did not hire any new commodities managers during the fiscal year. Assets remained invested with one passive/enhanced manager and one active manager. At the end of the fiscal year, 67% of the Trust's allocation to commodities was actively managed.

**Opportunistic:** This asset class includes two vehicles managed by a single manager which together represent a multi-strategy mandate. Additionally, as the Trust increased its cash holdings during the market turmoil, it retained a new cash manager and classifies those cash holdings in the opportunistic asset class. At the end of the fiscal year, 53% of the Trust's allocation to the opportunistic asset class, including cash, was actively managed.

**Private Equity:** During fiscal year 2009, the Trust continued to make significant progress towards its implementation objectives in the private asset classes, albeit at a slower pace than in previous years due to market volatility and the need to manage Trust liquidity carefully. Five new private equity fund investments were added during the fiscal year, bringing the total number of partnerships in the private equity portfolio to 54.

**Real Assets:** The Trustees also approved three new real asset fund investments during fiscal year 2009, two real estate funds and one oil and gas fund. The new fund investments brought the total number of real asset fund investments to 14.

**Global Tactical Asset Allocation Program:** The managers in this program utilized multiple asset class sub-products and therefore were not categorized in a single asset class. During fiscal year 2008, the Trust made the decision to terminate one of the three managers in this program, due to significant changes in its management team combined with poor performance, and during fiscal year 2009 the Trust terminated the remaining two managers in the program.

**Securities Lending Program:** During fiscal year 2009, the Trust decided to terminate its participation in securities lending in order to improve liquidity and reduce risk in volatile markets. As a result, NRRIT moved assets to four new index fund vehicles which do not participate in securities lending, two in US Equity and two in Non-US Equity, and terminated securities lending in its separately-managed accounts.

**Proxy Voting Policy:** The Trust maintains a proxy voting policy which delegates the voting of Trust proxies to its investment managers as fiduciaries of the Trust. It also details specific responsibilities of those managers in the voting of proxies, makes clear the responsibility of investment managers to coordinate proxy-voting with the Trust's custodian, and retains for the Trust itself responsibility for monitoring, reviewing and reporting on the implementation of the proxy voting policy. A copy of the proxy voting policy is in Appendix F. Each year managers with proxy-voting responsibilities are required to certify that they have voted all proxies in accordance with the policy and solely in the interest of the participants and beneficiaries of the Trust. After the end of the fiscal year, staff reviewed and reported to the Board of Trustees regarding each manager's proxy voting record with respect to Trust securities.

### *d) Investment Performance*

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 4.9% of the total, or $1.2 billion out of $24.6 billion as of September 30, 2009, is held in the form of reserves that are invested in Treasury securities by the RRB. These reserves are replenished as needed through transfers from the Trust to the Treasury. In determining its asset allocation, the Trust takes into account these reserves, and sets its investment policies accordingly. For fiscal year 2009, the investment return on Trust-managed assets only (excluding reserves at the RRB), was -0.7% net of fees.

## 4) Audit Committee

The Audit Committee held five meetings during fiscal year 2009. During the year, the Audit Committee engaged Deloitte & Touche LLP ("Deloitte") to perform an audit of the Trust's Schedule of Investments in Securities and Statement of Assets and Liabilities as of December 31, 2008. The completion of the full balance sheet audit provided the RRB with an independent audited net asset balance for the Trust, allowing the RRB to complete its annual Statement of Social Insurance using audited inputs from the Trust.

In addition, the Audit Committee engaged Deloitte & Touche LLP to perform the annual audit of the Trust's financial statements for the fiscal year ended September 30, 2009. The Audit Committee provided oversight of the financial statement audit process in accordance with its fiduciary duty to the Trust. The Trust issued its audited financial statements within 45 days of its fiscal year end, allowing the RRB to include the Trust's net assets in its financial statements and meet its financial reporting deadline.

The Audit Committee also engaged an independent third party to perform an operational audit to assist in the evaluation of various aspects of the Trust's operations and investment program. The operational audit was conducted during fiscal year 2009, and the findings resulting from the audit were presented to the Audit committee in November 2009.

## 5) Internal Accounting and Administrative Controls

During fiscal year 2009, the Trust's staff continued to improve the system of internal accounting and administrative controls designed to ensure the safekeeping and proper accounting of investments, and the efficient operation of the Trust activities.

### *a) Custodian Arrangements*

The Trust's assets are held by its primary custodian, The Northern Trust Company (Northern Trust). Assets represented by commingled funds are held with the custodian of each respective fund. As the Trust continues to move from primarily commingled index funds to separately-managed accounts, the custody of those assets will be transferred from the sub-custodians to the Trust's primary custodian.

As the Trust's investments have grown in complexity over the years, the custodian has worked closely with the Trust and enhanced internal processes, procedures and systems that review all transactional activity. Additionally, the custodian monitors daily activity and performs tolerance level testing.

### *b) Accounting*

Northern Trust provides the Trust with a full accounting and performance record of all transactions involving Trust assets. Reconciliations of the primary custodial records to the investment manager's records are performed monthly. The Trust has established a process to review the monthly reconciliations to ensure that all transactions are recorded properly on the respective books. Financial data from the custodial bank form the basis for the Trust's required reports and financial statements.

In addition, Trust staff fully implemented the Financial Accounting Standards Board Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, which was subsequently incorporated in the Fair Value Measurements and Disclosures Topic of the FASB ASC (Topic 820). This standard, which became effective for the Trust's fiscal year ending September 30, 2009, provides authoritative accounting guidance surrounding the measurement of Trust investments at fair value, and requires expanded financial statement disclosures related to fair value.

## 6) Financial Status of the Trust

### *a) Summary of Cash Flows and Changes in Trust Assets*

During fiscal year 2009, the Trust continued to make cash transfers of railroad retirement system assets to the Treasury for beneficiary payments and expenses. These transfers totaled approximately $1.6 billion during fiscal year 2009. The net amount transferred to the Trust from the Treasury since inception is $13.4 billion.

The major changes in Trust assets result from transfers to the Treasury, income on investments, realized and unrealized changes to market values, and expenses of the Trust. These impacts for fiscal year 2009 were as follows:

| | $ in Billions |
|---|---|
| Trust Assets as of 9/30/2008 | $25.3 |
| Investment Income | 0.5 |
| Net Realized and Unrealized Loss | (0.9) |
| Assets Transferred to the Treasury | (1.6) |
| Expenses of the Trust | (0.1) |
| Trust Assets as of 9/30/2009 | $23.3 |

*Total does not add due to rounding*

## *b) Financial Statements and Independent Auditors' Report*

# *National Railroad Retirement Investment Trust*

*Financial Statements as of and for the Fiscal Year Ended September 30, 2009 and Independent Auditors' Report*

# National Railroad Retirement Investment Trust

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# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
National Railroad Retirement Investment Trust:

We have audited the accompanying statement of assets and liabilities of the National Railroad Retirement Investment Trust (the "Trust"), including the condensed schedule of investments, as of September 30, 2009, and the related statements of operations and changes in net assets for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the National Railroad Retirement Investment Trust as of September 30, 2009, and the results of its operations and changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

November 13, 2009

# National Railroad Retirement Investment Trust

## Statement of Assets and Liabilities
## As of September 30, 2009
## ($ In thousands)

| | | |
|---|---|---|
| **Assets** | | |
| Investments in Securities - At fair value (cost, $22,325,240) | $ | 22,208,605 |
| Cash and Cash Equivalents (including restricted cash of $2,971) | | 1,415,387 |
| Receivable for Investments Sold | | 1,059,962 |
| Unrealized Gain on Foreign Currency Exchange Contracts | | 223,207 |
| Interest Receivable | | 68,464 |
| Cash Denominated in Foreign Currency - At fair value (cost, $34,756) | | 34,717 |
| Unrealized Gain on Swap Contracts | | 12,798 |
| Dividends Receivable | | 12,775 |
| Variation Margin Receivable | | 94 |
| Other Assets | | 7,072 |
| Total Assets | | 25,043,081 |
| **Liabilities** | | |
| Payable for Investments Purchased | | 1,296,501 |
| Unrealized Loss on Foreign Currency Exchange Contracts | | 278,645 |
| Obligation to Return Securities Lending Collateral | | 98,798 |
| Accrued Management Fees | | 17,232 |
| Unrealized Loss on Swap Contracts | | 6,828 |
| Options Written - At fair value (premiums received, $4,145) | | 3,291 |
| Variation Margin Payable | | 159 |
| Other Liabilities | | 8,884 |
| Total Liabilities | | 1,710,338 |
| **Net Assets** | $ | 23,332,743 |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Condensed Schedule of Investments
## As of September 30, 2009
## ($ In thousands)

| | % of Net Assets | Number of Units, Shares or Par Value (000) | Fair Value |
|---|---|---|---|
| **Equity** | | | |
| **US Equity** | | | |
| Common Stocks | | | |
| Information Technology | | | |
| Apple Inc. | | 510 | $ 94,663 |
| Microsoft Corp. | | 3,232 | 83,689 |
| Qualcomm Inc. | | 1,419 | 63,823 |
| Cisco Systems Inc. | | 2,253 | 53,046 |
| Google Inc. Class A | | 102 | 50,716 |
| Other | | - | 655,875 |
| | 4.29% | | 1,001,812 |
| Financial Services | | | |
| JP Morgan Chase & Co. | | 1,350 | 59,156 |
| Bank of America Corp. | | 3,293 | 55,716 |
| Wells Fargo & Co. | | 1,802 | 50,782 |
| Other | | - | 609,296 |
| | 3.32% | | 774,950 |
| Health Care | | | |
| Johnson & Johnson | | 842 | 51,240 |
| Other | | - | 492,648 |
| | 2.33% | | 543,888 |
| Consumer Discretionary | 2.13% | - | 496,249 |
| Energy | | | |
| Exxon Mobil Corp. | | 1,071 | 73,515 |
| Other | | - | 403,744 |
| | 2.05% | | 477,259 |
| Industrials | 1.84% | - | 430,269 |
| Consumer Staples | 1.41% | - | 328,015 |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Condensed Schedule of Investments
## As of September 30, 2009
## ($ In thousands)

| | % of Net Assets | Number of Units, Shares or Par Value (000) | Fair Value |
|---|---|---|---|
| **Equity (continued)** | | | |
| Utilities | 0.64% | - | $ 149,052 |
| Materials | 0.62% | - | 144,093 |
| Telecommunications | | | |
| AT&T Inc. | | 1,908 | 51,548 |
| | | - | 85,831 |
| | 0.59% | | 137,379 |
| Other Common Stocks | 0.00% | - | 140 |
| | 19.21% | | 4,483,106 |
| Unit Trusts | | | |
| BGI Russell 1000 Index Fund | | 29,993 | 392,494 |
| Northern Trust Russell 1000 Value Equity Index Fund | | 597 | 370,285 |
| BGI Russell 2000 Growth Fund | | 24,603 | 356,505 |
| Blenheim Commodity Fund | | 117 | 322,359 |
| BGI Russell 2000 Value Fund | | 14,141 | 315,767 |
| Northern Trust Russell 1000 Growth Equity Index Fund | | 1,330 | 274,253 |
| BGI Russell 2000 Equity Index Fund | | 14,234 | 195,647 |
| Other | | - | 271 |
| | | | 2,227,581 |
| Other US Equity Securities (a) | | | |
| Wellington Trust Company Real Estate Portfolio | | 3,352 | 54,563 |
| Other | | | 49,748 |
| | | | 104,311 |
| **Total US Equity** | **29.21%** | | **6,814,998** |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Condensed Schedule of Investments
## As of September 30, 2009
## ($ In thousands)

| | % of Net Assets | Number of Units, Shares or Par Value (000) | Fair Value |
|---|---|---|---|
| **Equity (continued)** | | | |
| **Non US Equity** | | | |
| Unit Trusts | | | |
| BGI EAFE Value Index Fund | | 145,471 | $ 1,231,962 |
| BGI EAFE Growth Index Fund | | 76,433 | 909,857 |
| BGI Emerging Markets Index Fund | | 45,879 | 724,970 |
| BGI MSCI EAFE Equity Index Fund | | 40,139 | 599,084 |
| BGI World ex-US Small Cap Equity Index Fund | | 30,529 | 346,940 |
| Northern Trust Emerging Markets Equity Index Fund | | 27,639 | 317,354 |
| BGI MSCI Equity Index Fund (Canada) | | 4,705 | 279,623 |
| Northern Trust Developed Small Cap Equity Index Fund | | 21,368 | 189,768 |
| Other | | | 2,957 |
| | | | 4,602,515 |
| Common Stocks | | | |
| United Kingdom | 1.04% | | 243,756 |
| Japan | 0.96% | | 222,864 |
| Canada | 0.66% | | 155,126 |
| Australia | 0.43% | | 100,214 |
| Other Common Stock | 3.73% | | 871,004 |
| | | | 1,592,964 |
| **Total Non US Equity** | **26.55%** | | **6,195,479** |
| **Private Equity** | | | |
| Campbell Opportunity Timber Fund, LP | | 99,341 | 107,934 |
| Providence Total Market Trust Special Situations Feeder, LP | | 72,051 | 75,136 |
| Warburg Pincus Private Equity IX, LP | | 67,307 | 67,477 |
| Blackstone Capital Partners V, LP | | 77,292 | 56,548 |
| Other | | - | 909,921 |
| **Total Private Equity** | | | **1,217,016** |
| **Total Equity (Cost $14,986,730)** | **60.98%** | | **14,227,493** |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Condensed Schedule of Investments
## As of September 30, 2009
## ($ In thousands)

| | % of Net Assets | Number of Units, Shares or Par Value (000) | Fair Value |
|---|---|---|---|
| **Fixed Income** | | | |
| Government Notes and Bonds | | | |
| US Treasury Notes 3%, 8/31/2016 | | 62,700 | $ 63,072 |
| US Treasury Notes 3.625%, 8/15/2019 | | 68,489 | 70,298 |
| US Treasury Notes 2.625%, 7/31/2014 | | 55,943 | 56,878 |
| Other | | - | 1,949,697 |
| | 9.17% | | 2,139,945 |
| Corporate Bonds | 8.19% | - | 1,910,361 |
| Government - Sponsored Mortgage Backed Securities ("MBS") | | | |
| FNMA 30 Year Pass-throughs, 6%, October | | 54,300 | 57,287 |
| Other | | - | 1,196,690 |
| | 5.37% | | 1,253,977 |
| Short Term Bills and Notes | | | |
| US Treasury Bills 02/25/10 | | 85,000 | 84,953 |
| US Treasury Bills 11/12/09 | | 75,221 | 75,217 |
| US Treasury Bills 11/19/09 | | 75,166 | 75,159 |
| US Treasury Bills 01/28/10 | | 75,102 | 75,077 |
| US Treasury Bills 12/17/09 | | 75,046 | 75,033 |
| US Treasury Bills 12/24/09 | | 65,292 | 65,276 |
| US Treasury Bills 12/03/09 | | 60,091 | 60,085 |
| US Treasury Bills 02/11/10 | | 50,066 | 50,043 |
| US Treasury Bills 12/10/09 | | 50,037 | 50,031 |
| US Treasury Bills 02/18/10 | | 50,000 | 49,974 |
| Other | | - | 140,041 |
| | 3.43% | | 800,889 |
| Unit Trusts | | | |
| Bridgewater Pure Alpha II Ltd Class B | | 333 | 310,161 |
| Bridgewater All Weather Portfolio Ltd Class B | | 209 | 172,791 |
| King Street Capital, Ltd Class A Series 3 Fund | | 939 | 109,939 |
| Bridgewater Pure Alpha II Ltd | | 67 | 66,780 |
| Other | | - | 87,967 |
| | 3.20% | | 747,638 |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Condensed Schedule of Investments
## As of September 30, 2009
## ($ In thousands)

| | % of Net Assets | Number of Units, Shares or Par Value (000) | Fair Value |
|---|---|---|---|
| **Fixed Income (continued)** | | | |
| Commercial Mortgage-Backed Securities | 0.98% | | $ 227,676 |
| Non-Government CMOs | 0.91% | | 212,218 |
| Government Agencies | 0.87% | | 204,080 |
| Index-Linked Government Bonds | 0.78% | | 181,891 |
| Asset Backed Securities | 0.45% | | 105,905 |
| Other Fixed Income Securities (b) | 0.52% | | 122,022 |
| | | | 1,053,792 |
| **Total Fixed Income (Cost $7,239,713)** | 33.89% | | 7,906,602 |
| **Securities Lending Collateral** | | | |
| Core USA Fund (c) | | 98,798 | 74,510 |
| **Total Securities Lending Collateral (Cost $98,798)** | 0.32% | | 74,510 |
| **Total Investments in Securities (Cost $22,325,240)** | **95.18%** | | **22,208,605** |
| Other Assets less Liabilities | 4.82% | | 1,124,138 |
| **Net Assets** | **100.00%** | | **$ 23,332,743** |

Note: The Schedule of Investments presents the investments of National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

(a) Includes Purchased Options, Preferred Stock, Real Estate and REITs, and Rights/Warrants.
(b) Includes Index-Linked Corporate Bonds, Municipal/Provincial Bonds, Guaranteed Fixed Income Contracts, Bank Loans and Short-Term Investment Funds.
(c) Represents cash collateral pledged by the counterparties for investment securities loaned by the Trust.

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Statement of Operations
## As of September 30, 2009
## ($ In thousands)

| | | |
|---|---|---|
| Income: | | |
| Interest | $ | 326,189 |
| Dividends | | 157,769 |
| Income from investment securities loaned, net of fees | | 5,408 |
| Total Income | | 489,366 |
| Expenses: | | |
| Investment management fees | | 49,510 |
| Compensation | | 3,219 |
| Professional fees | | 2,872 |
| Trustee fees and expenses | | 168 |
| Custodial fees | | 115 |
| Other expenses | | 7,965 |
| Total Expenses | | 63,849 |
| Net Investment Income | | 425,517 |
| Realized and Unrealized Gain/(Loss) from Investments and Foreign Currency: | | |
| Net Realized gain/(loss) from Investments and Foreign Currency | | (3,794,641) |
| Net increase/(decrease) in unrealized gain/(loss) on: | | |
| Investments | | 2,919,250 |
| Translation of assets and liabilities in foreign currencies | | (117) |
| | | 2,919,133 |
| Net realized and unrealized loss from investments and foreign currency | | (875,508) |
| Net Decrease in Net Assets Resulting from Operations | $ | (449,991) |

The accompanying footnotes are an integral part of these financial statements.

# National Railroad Retirement Investment Trust

## Statement of Changes in Net Assets
## As of September 30, 2009
## ($ In thousands)

| | | |
|---|---|---|
| Increase/(Decrease) in Net Assets from Operations | | |
| Net investment income | $ | 425,517 |
| Net realized gain/(loss) from investments and foreign currency | | (3,794,641) |
| Net change in unrealized gain/(loss) on investments and translation of assets and liabilities in foreign currencies | | 2,919,133 |
| Net decrease in net assets resulting from operations | | (449,991) |
| Assets transferred to the Treasury | | (1,553,000) |
| Net Assets: | | |
| Beginning of Year | | 25,335,734 |
| End of Year | $ | 23,332,743 |

The accompanying footnotes are an integral part of these financial statements.

## Notes to Financial Statements
## As of and for the Fiscal Year Ended September 30, 2009

### 1. ORGANIZATION

***Formation*** The National Railroad Retirement Investment Trust (the "Trust") was created as a result of Federal legislation. The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") established the Trust, the sole purpose of which is to manage and invest industry-funded Railroad Retirement assets as set forth in the Act. Domiciled in, and subject to the laws of the District of Columbia (to the extent not inconsistent with the Act), the Trust is a tax-exempt entity that is neither an agency nor instrumentality of the Federal Government. The Trust became effective on February 1, 2002.

The Railroad Retirement system was created as a Federal pension program during the 1930s to fund retirement benefits of railroad workers and their dependents. For more than 65 years, the Railroad Retirement Account ("RRA"), a Federal trust fund, has collected payroll taxes from railroad employers and employees and paid out benefits to beneficiaries. Railroad Retirement is funded as a pay-as-you-go system that is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA") funding rules.

The Act authorizes the Trust to manage and invest the assets of the Railroad Retirement system in the same array of investment alternatives available to private sector pension plans, and to pay administrative expenses of the Trust from the assets in the Trust. Prior to the Act, Railroad Retirement assets were limited to investment in US Government securities issued directly by the United States Treasury (the "Treasury"). Responsibility for administering the Railroad Retirement system, including eligibility determinations and the calculation of beneficiary payments, remains with the Railroad Retirement Board (the "Board"), a Federal agency.

***Investment Management*** The Trust's principal investment objective for its portfolio of investments ("portfolio") is to achieve a long term rate-of-return on assets for the portfolio sufficient to enhance the financial strength of the railroad retirement system and to provide timely funding to the Treasury for payment of benefit obligations and administrative expenses.

Except for limited partnership agreements, which are held by the Trust, generally all of the Trust's assets in the portfolio are held by custodians appointed by the Trust, or transfer agents in the case of commingled funds.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Trust in preparation of its financial statements. The policies conform to accounting principles generally accepted in the United States of America ("GAAP") for investment companies.

***Accounting Standards Codification*** In June 2009, the Financial Accounting Standards Board ("FASB") confirmed that the FASB Accounting Standards Codification ("ASC") would become the single official source of authoritative GAAP (other than guidance issued by the Securities and Exchange Commission, superseding all other accounting literature except that issued by the SEC. The FASB ASC does not change GAAP. However, as a result, only one level of authoritative GAAP exists. All other literature is considered non-authoritative. The FASB ASC is effective for financial statements issued for periods ending after September 15, 2009. Therefore, the Trust has changed the way specific accounting standards are referenced in the financial statements.

***Basis of Accounting*** The Trust applies the accrual method of accounting when preparing its financial statements.

***Valuation of Investments*** Commingled funds, hedge funds, and certain real estate funds ("Funds"), which are not publicly traded, may include publicly-traded securities for which detailed holdings are reported to the Trust. The fair value of these Funds as of September 30, 2009 totaled approximately $7.6 billion. Fair values of these non-publicly traded securities are determined after consideration of valuations provided by the external investment managers adjusted for receipts, disbursements, and distributions through the date of the statement of assets and liabilities. These Funds generally have redemption restrictions that limit the days when redemption requests can be made to one or more days per month. The valuation of these non-publicly traded Funds may involve estimates, appraisals, assumptions, and methods that are reviewed by management.

Equity securities traded on a national securities exchange or quoted on the NASDAQ National Market System ("NMS") are valued on their last reported sale price on the principal exchange (US or foreign) or official closing price as reported by NASDAQ. Options and futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade. Securities traded on over-the-counter ("OTC") markets as well as listed securities for which no sales are reported are valued at the most recent bid quotation.

Fixed income securities (US and foreign) for which price quotations are readily available are valued at the most recent reported sales price. If no reported sales price is available, fixed income securities are valued at prices furnished by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities.

The ability of issuers of the debt securities held by the Trust to meet their obligations may be affected by economic developments in a specific industry or region. The values of the securities can be significantly affected by changes in interest rates or in the financial condition of the issuer or market conditions generally. The Trust invests a portion of its assets in mortgage-backed securities and debentures. The value and related income of these securities is sensitive to change in economic conditions, including delinquencies and/or defaults. Recent instability in the markets for fixed-income securities, particularly mortgage-backed securities, has resulted in increased volatility of market prices and periods of illiquidity have adversely impacted the valuation of certain securities held by the Trust. The values of such investments are reported in the accompanying financial statements at their fair value determined based upon the market conditions as of September 30, 2009.

Foreign securities are valued as of the close of each foreign security's market wherein each security trades. All investments quoted in foreign currency are translated into US dollars at the prevailing exchange rates on the date of valuation. Investments in foreign securities may involve risks not present in domestic investments. Since foreign securities may be denominated in foreign currency and involve settlement and pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the US dollar can significantly affect the value of investments and earnings of the portfolio. Foreign investments may also subject the Trust to foreign government exchange restrictions, expropriations, taxation or other political, social or economic risks, all of which could affect the value of the foreign securities investments.

Securities (US and foreign) for which quotations are not readily available are valued under procedures contained in the Investment Manager Guidelines of the Trust's custodian contract with Northern Trust, approved by the Trustees. The pricing procedures for a security traded within the US, which includes, among other factors, researching most recent bid and ask prices, documenting the reason(s) for unavailability of data from a pricing service, and requesting current bids for similar securities from independent securities broker-dealers, may also be used to determine the value of a foreign security should something occur that renders quotations not readily available for a foreign security.

Private Equity ("PE") partnership assets are valued by the Trust at fair value as determined by the General Partner ("GP") of the investment partnership in accordance with the terms of each partnership's governing agreement. Changes in value for non-marketable securities held by each PE partnership are valued by the GP in accordance with GAAP and oversight by a Limited Partner advisory board. This value may be adjusted by the Trust if there is evidence in a secondary market of partnership share transactions that are different than the partner capital accounts. Private equity partnerships typically have investment periods of 5 years and terms of 10 years. Generally, the partnership invests the committed dollars during the investment period and harvests the portfolio during the remainder of the term.

Swap agreements are valued by the Trust at prices furnished by approved pricing sources. Changes in the value of swap agreements are recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. The amounts related to net receipts/(payments) under the swap agreements are recorded as realized gain/(loss) in the Statement of Operations. Aside from market risk, the primary risk associated with swap agreements is that a counterparty could default on its obligation to pay net amounts due to the Trust. The Trust's swap agreements consist of interest rate swaps, credit default swaps and total return swaps.

Effective October 1, 2008, the Trust adopted the FASB Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, which was subsequently incorporated in the Fair Value Measurements and Disclosures Topic of the FASB ASC (Topic 820). SFAS No. 157 establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Trust's investments, and requires additional disclosure about fair value.

## Notes to Financial Statements
## As of and for the Fiscal Year Ended September 30, 2009

The hierarchy of inputs is summarized below.

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc…)
- Level 3 – significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Trust's assets and liabilities carried at fair value:

| **Assets ($ in thousands)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Equity Securities | $6,128,525 | $6,828,872 | $1,299,247 | $14,256,644 |
| Convertible Securities | - | 364,770 | 107,841 | 472,611 |
| Government Bonds | - | 1,850,790 | 744,482 | 2,595,272 |
| Corporate Debt Securities | - | 1,421,884 | 76,706 | 1,498,590 |
| Mortgage and other Asset-Backed Securities | - | 1,791,926 | 7,848 | 1,799,774 |
| Other Fixed Income Securities | - | 903,683 | 682,031 | 1,585,714 |
| **Total Investments in Securities** | **$6,128,525** | **$13,161,925** | **$2,918,155** | **$22,208,605** |
| Swap Contracts | - | 12,798 | - | 12,798 |
| Futures Contracts | 8,866 | - | - | 8,866 |
| Foreign Currency Exchange Contracts | - | 223,207 | - | 223,207 |
| Foreign Currency | - | 34,717 | - | 34,717 |

| Liabilities ($ in thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Swap Contracts | - | $(6,828) | - | $(6,828) |
| Futures Contracts | (8,881) | | - | (8,881) |
| Foreign Currency Exchange Contracts | - | (278,645) | - | (278,645) |
| Written Options | - | (3,291) | - | (3,291) |

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

| | Investments in Securities ($000's) |
|---|---|
| Balance as of September 30, 2008 | $ 2,764,880 |
| Purchases and other acquisitions | 1,138,059 |
| Sales and other settlements | (767,185) |
| Change in unrealized gain (loss) | (184,783) |
| Realized gain (loss) | (48,224) |
| Net transfers in (out) of Level 3 | 15,408 |
| Balance as of September 30, 2009 | $ 2,918,155 |

***Security Transactions, Accrued Income and Expense*** The Trust records purchases and sales of investment securities on a trade-date basis. Investment securities are recorded at value. Interest income is determined on the basis of coupon interest accrued using the interest method. Dividend income (less foreign tax withheld, if any) is recorded on the ex-dividend date. Gains or losses realized on sales of investment securities are based on average cost.

***Cash and Cash Equivalents*** Cash and Cash Equivalents includes cash held at banks and cash balances held in short-term investment funds, which can be drawn down with same day notice. As of September 30, 2009, the Trust held approximately $3.0 million of restricted cash, representing initial margin on futures contracts.

***Options Contracts*** The Trust may purchase or sell (write) exchange- (or OTC-) traded options contracts to hedge against risks associated with price fluctuations for certain securities.

When either a put or call option is purchased, the contract is recorded as an investment and the premium gets marked-to-market daily to reflect the current market value of the option contract. When a purchased option contract expires (unexercised), a loss is realized in the amount of the cost of (premium paid for) the option. If a closing sale contract is entered into, however, a gain or loss is realized, to the extent that the proceeds from the sale are greater or less than the cost of the option. If a put option is exercised, a gain or loss is realized from the sale of the underlying security by adjusting the proceeds from such sale by the amount of the premium paid for the put option. If a call option is exercised, the cost of the security purchased upon exercise is increased by the premium paid for the call option.

When either a put or call option is sold (written), an amount equal to the premium received is recorded as a liability. The liability gets marked-to-market daily to reflect the current market value of the written option. When a written option contract expires (unexercised), a gain is realized in the amount of the premium received for (or paid for) this option. If a closing purchase contract is entered into, however, a gain or loss is realized in the amount of the premium less the cost of the option. If a written put option is exercised, the amount of the premium originally received reduces the cost of the security, which is purchased upon exercise of the put option. If a sold (written) call is exercised, a gain or loss is realized from the sale of the underlying security, and the proceeds (if any) from such sale are increased by the premium received for the written call.

Transactions in options written during the fiscal year ended September 30, 2009 were as follows:

| | Number of Contracts (000's) | Premiums ($000's) |
|---|---|---|
| Options outstanding 9/30/2008 | (106,834) | $ (4,558) |
| Options written | (1,005,503) | (29,216) |
| Options exercised/expired | 933,396 | 29,629 |
| Options outstanding 9/30/2009 | (178,941) | $ (4,145) |

The Trust could be exposed to risk if the counterparties in options transactions were unable to meet the terms of the contracts. To mitigate this risk, the Trust requires its counterparties to these contracts to pledge either cash or securities as collateral against any default in these transactions.

***Futures Contracts*** The Trust may invest in financial futures contracts for the purpose of hedging its portfolio to counter fluctuations in value, to gain access to securities the Trust intends to purchase, and to manage overall portfolio risk as part of a broad risk management program. As of September 30, 2009, the Trust held approximately $3.0 million of restricted cash, which is included in Cash and Cash Equivalents. This amount represents the initial margin on futures contracts as of September 30, 2009. Futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade.

The Trust is required to pledge an amount of cash, US government securities, or other assets, equal to a certain percentage of the futures contract amount (initial margin deposit) upon entering a financial futures contract. Subsequent payments, known as "variation margin," are made (or received) by the Trust each day, depending on the daily fluctuations in the value of the underlying financial instrument. The Trust records an unrealized gain or loss equal to the daily variation margin. When the margin amount is received or paid in cash, the daily variation margins are recorded as a realized gain or loss.

The Trust's use of financial futures transactions entails the risk of imperfect correlation in movements in the price of futures contracts and the value of the underlying hedged assets, and the risk associated with the possibility of an illiquid market. Should futures' market conditions change unexpectedly, and the Trust takes no action to respond to such changes, the Trust may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. Potential losses associated with counterparty risk are mitigated by initial margin deposits either in the form of cash or securities and variation margins deposited daily.

***Foreign Currency Translation*** The Trust maintains accounting records in US dollars. Investment securities in the portfolio denominated in a foreign currency are translated into US dollars at current exchange rates. Purchases and sales of securities, income receipts and trading expenses are translated into US dollars at the exchange rate on the date of the transactions.

***Forward Foreign Currency Exchange Contracts*** The Trust may use currency contracts to hedge against fluctuations in currency exchange rates. The Trust enters forward foreign currency exchange contracts ("forward currency contracts") or spot currency contracts as part of its investment strategies when purchasing or selling investment securities denominated in a foreign currency. Differences in currency exchange rates can adversely impact the value associated with the purchasing or selling of investment securities denominated in a foreign currency.

The Trust may use spot currency contracts to hedge against foreign currency exchange rate fluctuations related to a specific portfolio transaction, such as the delay between a security transaction's trade date and settlement date. The Trust may also use forward currency contracts to hedge against foreign currency exchange rate fluctuations related to portfolio holdings or concentrations of such holdings.

Currency contracts are adjusted daily by the prevailing spot or forward rate of the underlying currency, and any appreciation or depreciation is recorded for financial statement purposes as unrealized until the contract settlement date, at which time the Trust records realized gains or losses equal to the difference between the value of the contract at the time the contract opened and the value at the time it closed.

The Trust could be exposed to risk if the counterparty is unable to meet the terms of a currency contract or if the value of the foreign currency changes unfavorably and the Trust does not alter its position in the transaction. To mitigate this risk, the Trust requires its counterparties to pledge either cash or corporate securities as collateral against default in these transactions.

***Swap Agreements*** The Trust may enter swap transactions for hedging purposes as well as in order to efficiently gain exposure to a particular asset class index.

Swaps are marked-to-market daily based upon values from third party vendors or quotations from counterparties. Unrealized appreciation is recorded as an asset and unrealized depreciation is recorded as a liability on the Statement of Assets and Liabilities. The change in value of swaps, including accruals of periodic amounts of interest to be paid or received on swaps, is recorded as unrealized appreciation or depreciation in the Statement of Operations. Payments received or made at the beginning of the measurement period represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreements and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). These upfront payments are included in the calculation of realized gain or loss in the Statement of Operations. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss in the Statement of Operations. Net periodic payments received by the Trust are included as part of the realized gain or loss in the Statement of Operations. Entering into these agreements involves, to varying degrees, elements of credit, market and counterparty risk in excess of the amounts recognized in the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligations to perform or disagree as to the meaning of contractual terms in the agreements, and that there may be unfavorable changes in interest rates. At the time a swap agreement reaches its scheduled termination (or contract expiration) date, there is risk that the Trust would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as the expiring transaction. The Trust's swap agreements consist of interest rate swaps, credit default swaps and total return swaps.

***Securities Lending*** The Trust engages in a securities lending program with its custodian, as lending agent, to enhance the return on its investments. Securities lending transactions are usually initiated by securities broker-dealers and other financial institutions that need specific securities to cover either a short sale or a customer's failure to deliver securities sold short. The Trust requires counterparties to pledge either cash or securities as collateral to mitigate potential losses during securities lending transactions.

When the Trust receives cash as collateral pledged by a counterparty, the Trust recognizes this cash as its asset along with an obligation to return the cash. The cash is invested in a short-term investment fund until it is returned to the counterparty. This amount is reflected in Investments in Securities in the accompanying Statement of Assets and Liabilities and totaled $74.5 million as of September 30, 2009. The collateral is maintained at an amount ranging from 101.5% to 105% of the current market value of the loaned securities. The market value of the loaned securities is determined at the close of business each day and any additional required collateral is delivered to the Trust on the next business day. As of September 30, 2009, the Trust's custodian had declared a collateral deficiency in the Trust's short term collateral reinvestment pool (Core USA Fund), meaning the value of collateral was less than the minimum amount required by the securities lending agreement. As of October 1, 2009, sufficient additional collateral was provided by counterparties in accordance with the securities lending agreement.

When the Trust receives securities as collateral pledged by a counterparty, the Trust does not recognize the securities as its asset along with an obligation to return the securities since the Trust may not sell or repledge securities it receives as collateral pledged by a counterparty.

Securities on loan, their value and respective cash collateral pledged (invested in the securities lending collateral pool) as of September 30, 2009 were as follows:

| Securities Loaned ($ in thousands) | Value of Securities Loaned | Cash Collateral Pledged | Value of Securities Loaned | Securities Collateral Pledged |
|---|---|---|---|---|
| Fixed Income - Non-US Gov't Bonds | $ 4,834 | $ 5,351 | $ – | $ – |
| Fixed Income - Non-US Corp Bonds | 222 | 242 | – | – |
| Fixed Income - US Gov't Bonds | 4,795 | 4,903 | - | - |
| Fixed Income - US Corp Bonds | 11,548 | 11,859 | - | - |
| Equity - US Common Stock | 55,036 | 56,508 | 1,628 | 1,672 |
| Equity - Non-US Common Stock | 18,913 | 19,935 | 365 | 396 |
| | $ 95,348 | $ 98,798 | $ 1,993 | $ 2,068 |

Subsequent to the Trust's fiscal year end, the Trust terminated participation in its custodian's securities lending program and is in the process of removing Trust securities from loan.

***Common Stock*** The Trust invests in common stock across all corporate sectors.

***Government-Sponsored Entity Mortgage Backed Securities*** The Trust invests in government-sponsored entity mortgage backed securities ("MBS"). MBS are issued generally by government-sponsored enterprises (e.g., the Federal National Mortgage Association ("Fannie Mae"); Federal Home Loan Mortgage Corporation ("Freddie Mac"); and Government National Mortgage Association ("Ginnie Mae"), respectively).

The Trust's portfolio includes government-sponsored mortgage backed "to be announced" ("TBA") securities. TBA securities are marked-to-market on a daily basis by the custodian. TBAs can be either purchased or sold for forward settlement.

***Corporate and Government Bonds*** The Trust may invest in corporate bonds covering all sectors of the market. The Trust may also invest in government bonds. These include bonds and notes issued by the US government as well as foreign governments.

***Income Taxes*** The Trust is exempt from taxes under Section 501(c)(28) of the Internal Revenue Code of 1986 and from state and local taxes pursuant to Section 231(n)(j)(6) of the Railroad Retirement Act of 1974. As such, no provision for income taxes is included in the financial statements.

Uncertain tax positions are evaluated in accordance with FASB Interpretation ("FIN") No. 48, *"Accounting for Uncertainty in Income Taxes – an interpretation of Statement of Financial Accounting Standards No. 109"*, which was subsequently incorporated in the Income Taxes Topic of the FASB ASC (Topic 740). The Trust has no material uncertain tax positions.

***Investment Management Fees*** The Trust has entered into investment management agreements with third party investment managers. These agreements provide for the payment of investment management fees, which are generally paid on a quarterly basis. The fees are calculated as a percentage of the weighted-average value of assets under management, with an additional performance fee in some instances.

***Use of Estimates*** The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

### 3. RELATED PARTY TRANSACTIONS

***Railroad Retirement Board*** Under the provisions of the Act, the Board directs the Treasury to contribute RRA and Social Security Equivalent Benefit Account ("SSEBA") assets to the Trust, as defined in the Act. Since the Trust's inception, the Board has contributed $21.3 billion to the Trust. The Board also periodically directs the Trust to transfer funds to the Treasury to fund benefit payments and administrative expenses of the RRA. Since the Trust's inception, approximately $7.9 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2009, approximately $1.6 billion was transferred to the Treasury. As defined in the Act, the Trust reports to the Board and is required to perform its duties solely in the interest of the Board and through it, the participants and beneficiaries of the programs funded by the Act.

***Legal Counsel*** The Trust incurred approximately $2.5 million in legal fees during the fiscal year ended September 30, 2009. Legal counsel was provided by firms that may also provide services to the major railroads and railway labor unions whose representatives are members of the Board of Trustees.

***Custodian*** The Trust's custodian also serves as its securities lending agent. In addition, the custodian is engaged to provide investment management services for a portion of Trust assets.

### 4. EMPLOYEE BENEFIT PLAN

The Trust provides a defined contribution plan ("Plan") covering all employees. Employees participate in the Plan by making discretionary contributions from their eligible compensation, but not more than the maximum annual amount allowed by law. The Trust makes matching contributions equal to 100% on the first 6% of compensation deferred. The Trust may also, at its discretion, make an additional profit-sharing contribution to the Plan. During the fiscal year ended September 30, 2009, the Trust made contributions of $230,646 to the Plan on behalf of the employees.

### 5. COMMITMENTS

***Office Space Lease*** In July 2003, the Trust entered into a ten-year operating lease agreement with respect to its principal office space in Washington, DC. Subsequently, the Trust has entered into additional leases to expand its office space.

## Notes to Financial Statements
## As of and for the Fiscal Year Ended September 30, 2009

Remaining payment obligations relating to the leases for each of the next five years and thereafter are as follows:

| Fiscal Year Ending September 30 | Amount |
|---|---|
| 2010 | $ 413,402 |
| 2011 | 423,526 |
| 2012 | 433,902 |
| 2013 | 369,324 |
| 2014 | - |
| Thereafter | - |
| Total | $1,640,154 |

***Private Equity Investments*** As of September 30, 2009, the Trust had commitments to invest up to an additional $1.40 billion in Private Equity Investments. These investments are callable at the discretion of the GP and are funded from cash and cash equivalents held by the Trust.

### 6. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2009.

| | October 1, 2008 - September 30, 2009 |
|---|---|
| **Financial Ratios (1):** | |
| Expense to average net assets | 0.26% |
| Net investment income to average net assets | 1.75% |
| **Total Return (2):** | |
| Total Return | (0.67%) |

(1) The ratios of expense to average net assets and net investment income to average net assets represent the expenses and net investment income for the period, as reported on the statement of operations, to the Trust's average net assets.

(2) The total return reflected above includes net investment income and net realized and unrealized gains on investments. The return is time-weighted and measures the performance of a unit of assets held continuously for the time period covered.

### 6. TRUST DIVERSIFICATION

Over the past seven years, the Trust has deployed assets received from Treasury into a diversified and balanced portfolio of US and non-US equity and US and non-US fixed income securities. Over time, the Trust has furthered that diversification by allocating a percentage of the portfolio to private equity, real estate, and commodities. As mandated by its statute, the Trust manages its concentration of investment in any asset class, type of security or market sector. The Trust's policy of broad diversification is intended to protect its assets from disproportionate market shocks in volatile periods.

### 7. RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, which was subsequently incorporated in the Derivatives and Hedging Topic of the FASB ASC (Topic 815). SFAS No. 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosures that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. Subsequently, in September 2008, the FASB issued Staff Position ("FSP") No. 133-1 and Interpretation No. 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*, which was subsequently incorporated in the Derivatives and Hedging Topic of the FASB ASC (Topic 815). The FSP amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to require disclosures by sellers of credit derivative, including credit derivatives embedded in hybrid instruments. The FSP also clarifies the effective date of SFAS No. 161, whereby disclosures required by SFAS No. 161 are effective for financial statements issued for reporting periods beginning after November 15, 2008, the provisions of this FSP are effective for reporting periods ending after November 15, 2008. The adoption of the guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which was subsequently incorporated in the Fair Value Measurements and Disclosures Topic of the FASB ASC (Topic 820). This guidance provided additional direction in determining whether a market for a financial asset is inactive and, if so, whether transactions in that market are distressed, in order to determine whether an adjustment to quoted prices is necessary to estimate fair value. This additional guidance was effective for reporting periods ending after June 15, 2009, with early adoption permitted. The adoption of the guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* which was subsequently incorporated in the Subsequent Events Topic of the FASB ASC (Topic 855). The new guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The circumstances under which these events or transactions should be recognized or disclosed in financial statements was defined. Disclosure of the date through which subsequent events have been evaluated is also required, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The new guidance is effective for reporting periods ending after June 15, 2009. Therefore, the Trust has incorporated this disclosure in its notes to the financial statements. The adoption of the guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets. The Trust has evaluated subsequent events through November 13, 2009, the date these financial statements were issued.

In June 2009, the FASB issued two standards changing the accounting for securitization. SFAS No. 166, *Accounting for Transfers of Financial Assets* is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It also changes the requirements for derecognizing financial assets, and requires additional disclosures. These changes have been incorporated in the Transfers and Servicing Topic of the FASB ASC (Topic 860). SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* is a revision to FIN No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities,* and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This change has been incorporated in the Consolidation Topic of the FASB ASC (Topic 810), and requires additional disclosures about involvement with variable interest entities, the related risk exposure due to that involvement, and the impact on the entity's financial statements. The new guidance will be effective for the Trust on January 1, 2010. Early application is not permitted. The impact on the Trust's financial statement disclosures, if any, is currently being assessed.

In August 2009, the FASB issued Accounting Standards Update 2009-05, *Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value.* This guidance provides clarification that in circumstances in which a quoted price in an active market for an identical liability is not available, fair value should be measured using one or more specific techniques outlined in the update. The new guidance is effective for reporting periods beginning after the issuance. The impact on the Trust's financial statement disclosures, if any, is currently being assessed.

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