NRRIT

National Railroad Retirement Investment Trust

Annual Management Report

for Fiscal Year 2010

NRRIT

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Annual Management Report for Fiscal Year 2010
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, 2010

APPENDICES

A) BY-LAWS

B) INVESTMENT GUIDELINES

C) MEMORANDUM OF UNDERSTANDING

D) CONFLICTS OF INTEREST POLICY STATEMENT

E) CONFIDENTIALITY POLICY STATEMENT

F) PROXY VOTING POLICY

G) CHIEF INVESTMENT OFFICER, SENIOR OPERATING OFFICER AND SENIOR ACCOUNTING OFFICER CERTIFICATION LETTERS

H) RAILROAD RETIREMENT BOARD CERTIFICATION LETTER TO TREASURY AND TREASURY FEDERAL REGISTER NOTICE ON 2011 TAX RATE

I) NOTICE TO THE RAILROAD RETIREMENT BOARD AND ACCEPTANCE OF NEW TRUSTEES

J) BIOGRAPHICAL INFORMATION ON TRUSTEES AND STAFF

DEDICATION
BERNIE GUTSCHEWSKI

The legislation creating the National Railroad Retirement Investment Trust ("Trust") resulted from a decade of management and labor negotiations to develop a structure to strengthen the finances of the railroad retirement system. The Trust has been an unqualified success, both in terms of its improved investment of railroad retirement system assets and as a model for labor and management cooperation within the railroad industry. While many have worked to establish and build the Trust into the organization that it is today, some deserve special recognition. In that regard, its Board of Trustees ("Board") dedicates this ninth Annual Management Report to Bernie Gutschewski.

On May 31, 2010, Bernie Gutschewski retired as Vice President Taxes, Union Pacific Corporation, and as a founding Trustee of the Trust. Bernie Gutschewski was one of the original architects of the railroad retirement reform effort. Starting as early as 1990, he took a leadership role in developing consensus among railroad management on approaches to reform. Subsequently, from 1997 to 2000, he was one of the key negotiators in the management-labor effort to reach an agreement. He was a leader of the labor-management partnership that helped transform this agreement-in-principle into legislation that was introduced in Congress in 2000, and was enacted and signed into law in December 2001.

After the legislation was enacted on December 21, 2001, he chaired the management-labor implementation task force that worked tirelessly to resolve a broad range of issues necessary to have the organization become operational within the 41 days provided for in the statute. When the Trust formally came into existence on February 1, 2002, he was chosen as one of three founding management Trustees. He was reappointed as a management Trustee in 2004 and 2008.

Bernie is a unique blend of leadership, warmth of personality, seriousness of purpose, attention to detail, candor and sense of humor. These skills made him a special asset to the Board and to the Trust’s investment staff. At the outset, he helped bring management and labor together, and was always the person the Board turned to to manage complex and difficult assignments during the Trust's formative years. He also was elected Chair of the Board twice during his tenure.

The Board of Trustees takes this opportunity to thank Bernie for his collegiality, his friendship, and, most importantly, his commitment to, and leadership of, the National Railroad Retirement Investment Trust.

1) Introductory Statement

a) Overview

After the economic turmoil that created tremendous challenges for the global financial markets in fiscal year 2009, fiscal year 2010 (October 1, 2009 - September 30, 2010) was a year of stabilization and recovery. In this environment, the National Railroad Retirement Investment Trust ("Trust") performed well, with an investment return of 11.2% (net of fees). This investment return compares favorably with the return on the Trust's benchmark for this period of 9.9%.

Overall, during fiscal year 2010, the net asset value of Trust-managed assets increased from $23.3 billion on October 1, 2009 to $23.8 billion on September 30, 2010. This increase in asset value includes $2.0 billion that the Trust transferred to the US Treasury (the "Treasury") for railroad retirement (tier 2) benefit payments during the fiscal year.

Market Value of Trust-Managed Assets

($ in billions)

October 1, 2009		$23.3
Transfers from Trust to Treasury	$(2.0)	
Change in value	2.5	
Net Increase/(Decrease)		0.5
September 30, 2010		$23.8

In addition to Trust-managed assets, some other assets of the railroad retirement system are retained by the Railroad Retirement Board ("RRB") as reserves in accounts at the 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 eight years of investment operations, the Trust has transferred $9.9

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 $25.1 billion as of the end of fiscal year 2010. As such, despite the challenges of the past few 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 from the Trust to the Treasury for payment of RR Benefits	$ (9.9)	
Change in value*	14.3	
Net increase/(decrease)		4.4
September 30, 2010		$25.1

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

b) Market Volatility of Recent Years

Over the past eight 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. 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 the Trust's investment, accounting, and operations procedures manuals. In addition, an operational review of key investment and administrative matters was completed by an independent evaluation firm. The Board also approved changes in the Trust's *Investment Guidelines* to update its rules regarding investment in railroad securities and expanded the scope of permissible rebalancing.

The Board completed a national search to identify a candidate to replace John W. MacMurray as the Independent Trustee. Mr. MacMurray had announced that he would be retiring on January 31, 2011, at the end of his third three-year term on the Board.

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 ninth 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 2010, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2010. Railroad management appointed Mr. Alec Vincent, Assistant Vice President Finance and Treasurer, Burlington Northern Santa Fe LLC, to a three-year term that expires on January 31, 2013. Railway labor unions re-appointed Mr. Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railroad Signalmen, to a new three-year term that expires on January 31, 2013. In addition, the Trustees selected Mr. Joel Parker, Special Assistant to the President and International Vice President, Transportation Communications International Union (TCU/IAM), as the Chair of the Board of Trustees for the period February 1, 2010-January 31, 2011.

Mr. Vincent and Mr. Barrows joined the following five members of the Board: for terms expiring on January 31, 2011, Mr. Bernie Gutschewski, Vice President-Taxes, Union Pacific Corporation, Mr. Joel Parker, and Mr. John W. MacMurray, the Independent Trustee; and for terms expiring on January 31, 2012, Mr. James A. Hixon, Executive Vice President Law and Corporate Relations, Norfolk Southern Corporation, and Mr. George Francisco, Jr., President, National Conference of Firemen and Oilers-SEIU.

In addition to the new Trustees who joined the Trust in February 2010, the Trust welcomed another Trustee during 2010 due to the retirement of Mr. Bernie Gutschewski from Union Pacific Corporation and from his Trustee position on May 31, 2010. Effective June 1, 2010, railroad management appointed Ms. Mary S. Jones, Vice President and Treasurer, Union Pacific Corporation, to serve out the remainder of Mr. Gutschewski's term.

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.

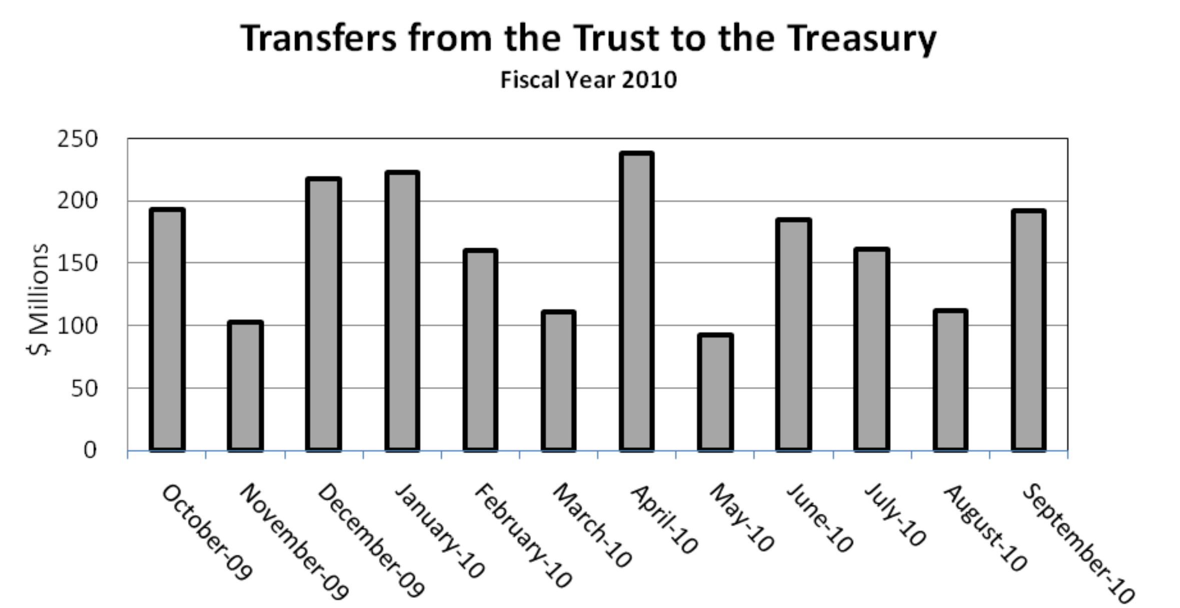
Pursuant to its established practice of periodic meetings with the RRB, during fiscal year 2010, the Trustees, the Chief Executive Officer/Chief Investment Officer, and Trust legal counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel to review the 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. 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.

During 2010, 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 provided audited financial asset data to the RRB as of December 31, 2009, 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 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.

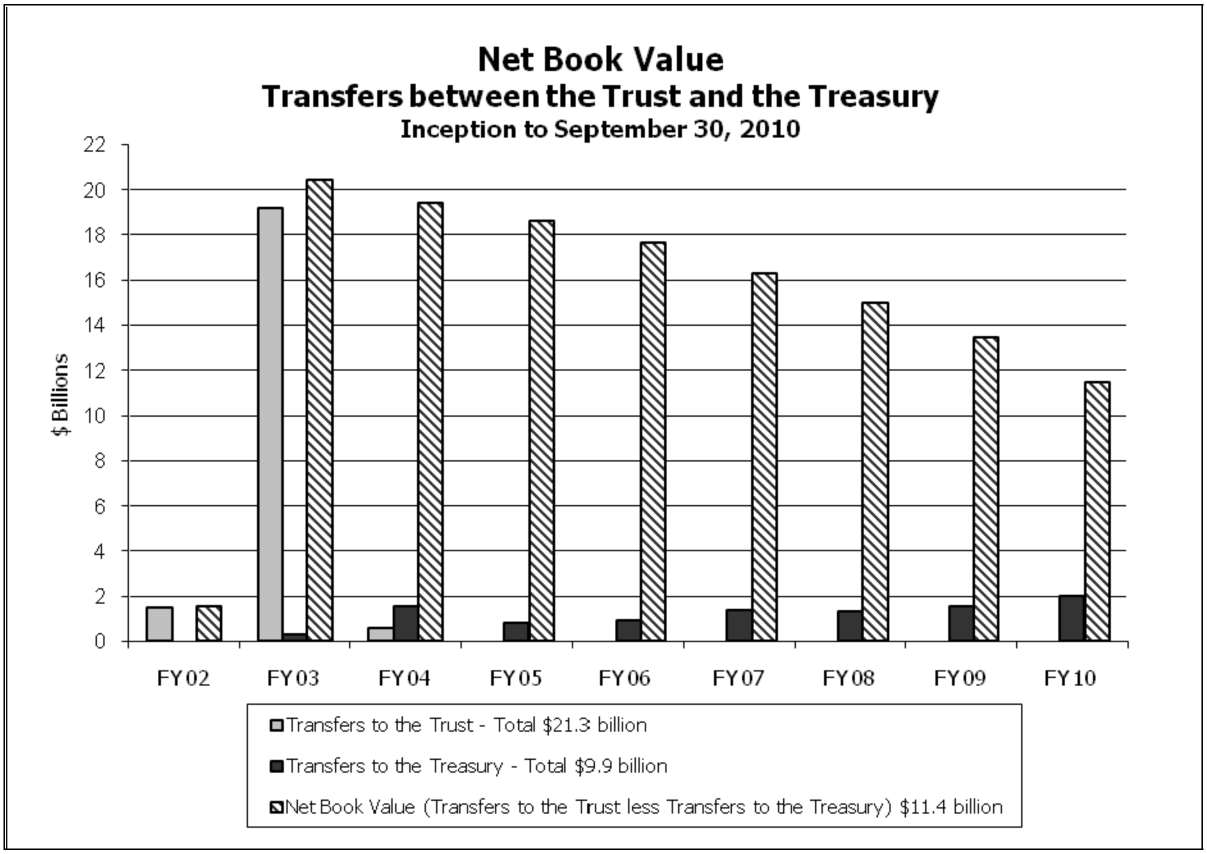
The Act also provides for the transfer from the Trust to the Treasury amounts necessary to pay RRA benefits under the Act. During fiscal year 2010, the Trust transferred a total of $2.0 billion to the Treasury for payment of RRA benefit obligations. The following chart displays the individual transfers from the Trust to the Treasury in fiscal year 2010.



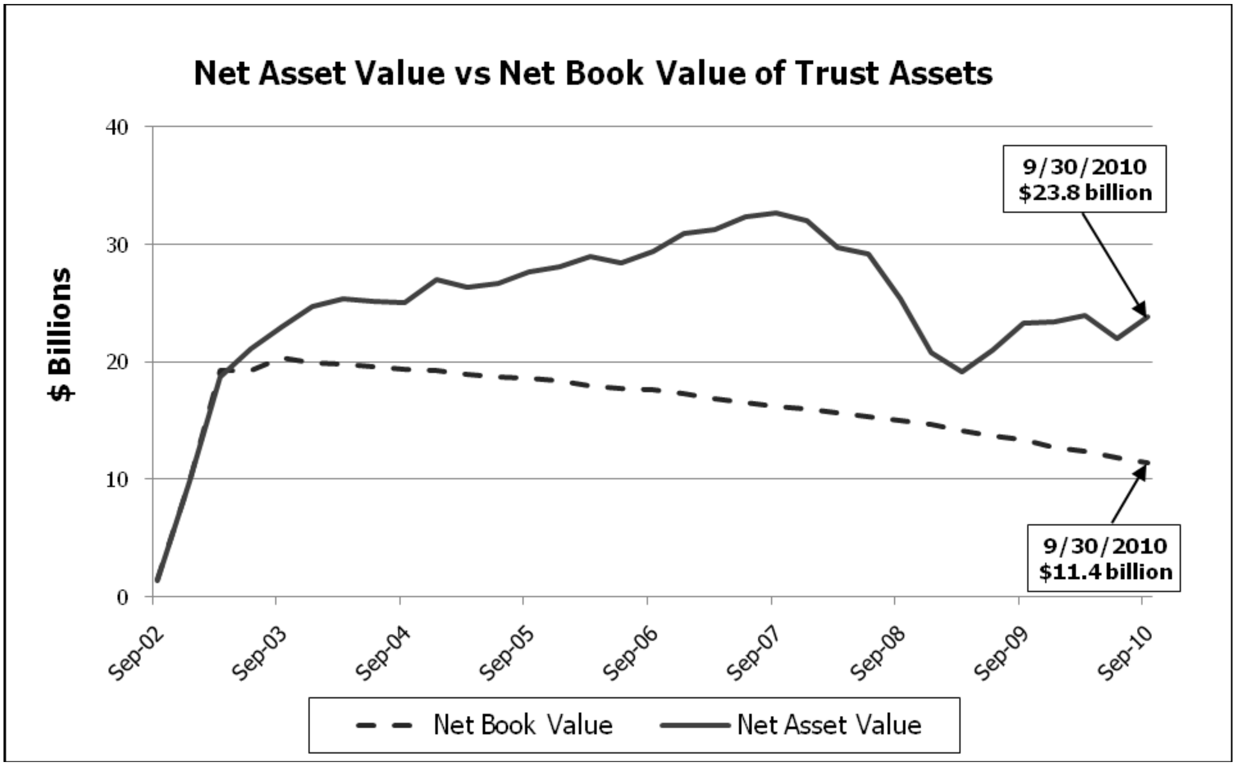
Note: The chart above reflects the cash required by the Treasury each month. Transfers are made on the first business day of the month unless the first falls on a Saturday. If the first falls on a Saturday, the transfer is made on the last business day of the prior month.

Summary of transfers: From its inception in February 2002 to September 30, 2010, the

Trust received $21.3 billion from the Treasury and transferred $9.9 billion to the Treasury. The net book value of funds received from the Treasury since inception, therefore, is $11.4 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 guidelines. 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, 2010, the net asset value of the Trust-managed assets totaled $23.8 billion, representing an increase of $12.4 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 Trust expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the ten-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 2010 and certified the ratio to the Secretary of the Treasury on October 21, 2010. The Secretary determined the AABR for fiscal year 2010 and on November 29, 2010 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2011. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The ABR declined from 5.33 for fiscal year 2009 to 5.27

for fiscal year 2010. The ten-year AABR declined from 6.8 at September 30, 2009 to 6.7 at September 30, 2010.

e) Trust Staff

The Trust's 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. The 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

For fiscal year 2010, the investment return, net of fees, on Trust-managed assets was 11.2%, outperforming the Trust's benchmark return of 9.9%. The positive excess returns were driven primarily by the Trust's investment manager performance in the opportunistic and fixed income asset classes.

Unemployment continues to be the main area of concern for both investors and legislators in the United States. The fiscal year started with the unemployment rate at 10.1%−a level not seen since the early 1980s. However, the economy began to show signs of recovery, with the unemployment rate dropping half a percentage point to 9.6% at the end of September 2010 (though still high compared to its long-term average of 5.7%) and GDP gaining 3.1% year-over-year in constant dollars, as measured by the Bureau of Economic Analysis. Total GDP output at the end of the fiscal year 2010, however, was still down $102.8 billion from the pre-financial crisis levels observed in late 2007.

Outside the United States, concerns over sovereign debt in Europe were a driving theme for the year. The US dollar strengthened 6.6% over the Euro, which negatively affected non-US equity returns.

b) Investment Plan: Structure

The Trust's asset class structure has developed over the eight years since September 2002 from a starting portfolio consisting entirely of 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. These rebalancing rules were reevaluated by the Trustees during the fiscal year, and revised on February 18, 2010.

The *Investment Guidelines* also provide for a policy benchmark by asset class to measure actual Trust performance against an objective standard. The current asset class target ranges, which were approved by the Trustees on March 18, 2009, provide for greater rebalancing flexibility during periods of increased market volatility.

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%
	100%	

The Trust's *Investment Guidelines* address opportunistic investments, for which no specific target allocation is set. This category is 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: During the fiscal year, the Trust closed four existing style-specific index fund accounts, consolidating the portfolio's passive exposure into two non-securities lending index funds. The Trust ended fiscal year 2010 with 20 active and two passive US Equity managers. 74% of the Trust's US Equity portfolio was actively managed at the end of the fiscal year.

Non-US Equity: During the fiscal year, the Trust added three active investment managers to manage emerging markets equity, bringing the total of active investment managers in non-US equity to five at the end of the fiscal year. In addition to these five active managers, the Trust ended fiscal year 2010 with one passive investment manager who manages seven index fund products in non-US equity. At the end of the fiscal year, 29% of the Trust's non-US equity allocation was actively managed. As a result of a search for new developed markets active managers, new active managers will be funded during fiscal year 2011.

US Fixed Income: During the fiscal year, the Trust added one specialist manager to actively manage a portfolio of structured securities. At the end of the fiscal year this asset class had one passive/enhanced manager and 11 active managers, and 92% of the Trust's US fixed income allocation was actively managed.

Non-US Fixed Income: No new managers were hired in this asset class in fiscal year 2010. 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 managers for this asset class in fiscal year 2010. At the end of the fiscal year this asset class had one passive/enhanced manager and one active manager, and 67% of the Trust's allocation to commodities was actively managed.

Opportunistic: This asset class includes multi-asset class strategies and cash. During the fiscal year, two new multi-asset class managers were hired. At the end of the fiscal year 2010, in addition to the two new managers, the multi-asset class strategy included two investment vehicles managed by a single manager.

Private Equity: During fiscal year 2010, the Trust continued to make progress towards its implementation objectives in the private asset classes, albeit at a slower pace than in previous years due to the current market environment and the need to manage Trust liquidity carefully. Three new private equity fund commitments were made during the fiscal year, bringing the total number of partnership commitments in the private equity portfolio to 57 at the end of fiscal year 2010.

Real Assets: The Trust approved commitments to six new private real estate funds and one oil and gas fund during fiscal year 2010. This brought the total number of private real asset commitments to 21. The Trust also had investments in three REIT funds at the end of the fiscal year.

d) 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 can be found 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.

e) Railroad Retirement System Assets

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 5.3% of the total, or $1.3 billion out of $25.1 billion as of September 30, 2010, 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 2010, the investment return on Trust-managed assets only (excluding reserves at the RRB), was 11.2% net of fees.

4) Audit Committee

The Audit Committee held five meetings during fiscal year 2010. 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, 2009. The completion of the balance sheet audit provided the RRB with an independent audited net asset balance for the Trust, allowing the RRB to complete an 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, 2010. 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.

During fiscal year 2010, an independent third party concluded an operational audit of the Trust, which was conducted to assist in the evaluation of various aspects of the Trust's operations and investment program. The Audit Committee ("Committee") provided oversight of the operational audit and met with the firm to discuss the observations and recommendations made in its report. The Committee transmitted the report, along with a table summarizing the report's recommendations and the Trust's responses, to the members of the RRB.

5) Internal Accounting and Administrative Controls

During fiscal year 2010, 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's activities.

a) Custodial Arrangements

The Trust's assets are primarily held by its custodian, The Northern Trust Company ("Custodian"). Assets represented by commingled funds are held with the custodian of each respective fund. Recordkeeping on the comingled funds is maintained at the Custodian so all assets are accounted for on the Custodian's books. Likewise, private partnership investments are maintained at the partnerships, but periodic statements are presented to and recorded by the Custodian on the Trust's books. The Custodian maintains records of all of the Trust's assets.

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 on changes in market values.

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 managers' 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 formalized its Accounting Policies and Procedures Manual during the fiscal year and presented the Manual in detail to the Audit Committee.

6) Financial Status of the Trust

a) Summary of Cash Flows and Changes in Trust Assets

During fiscal year 2010, the Trust continued to make cash transfers of assets to the Treasury for beneficiary payments and expenses. These transfers totaled approximately $2.0 billion during fiscal year 2010. The net amount transferred to the Trust from the Treasury since inception was $11.4 billion through the end of the fiscal year.

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 2010 were as follows:

	$ in Billions
Trust Assets as of 9/30/2009	$23.3
Investment Income	0.5
Net Realized and Unrealized Gain	2.1
Assets Transferred to the Treasury	(2.0)
Expenses of the Trust	(0.1)
Trust Assets as of 9/30/2010	$23.8

b) Financial Statements and Independent Auditors' Report

National Railroad Retirement Investment Trust

Financial Statements as of and for the Fiscal Year Ended September 30, 2010 and Independent Auditors' Report

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

TABLE OF CONTENTS

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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, 2010, and the related statement 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, 2010, 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 15, 2010

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF ASSETS AND LIABILITIES
AS OF SEPTEMBER 30, 2010
($ in thousands)

ASSETS:	
Investments in securities — at fair value (cost $22,094,989)	$ 23,677,952
Receivable for investments sold	638,340
Cash and cash equivalents (including restricted cash of $8,770)	616,824
Unrealized gain on foreign currency exchange contracts	200,163
Securities sold under agreements to repurchase	96,494
Interest receivable	86,145
Cash denominated in foreign currency — at fair value (cost $21,017)	21,295
Dividends receivable	10,559
Unrealized gain on swap contracts	3,629
Other assets	7,470
Total assets	25,358,871
LIABILITIES:	
Payable for investments purchased	1,210,501
Unrealized loss on foreign currency exchange contracts	261,763
Securities purchased under agreements to resell	25,045
Accrued management fees	16,098
Options written — at fair value (premiums received $4,542)	6,404
Unrealized loss on swap contracts	5,215
Other liabilities	24,416
Total liabilities	1,549,442
NET ASSETS	$ 23,809,429

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

CONDENSED SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2010
($ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
EQUITY			
US Equity			
Common Stocks			
Information Technology			
Apple Inc.		428	$ 121,579
Microsoft Corp.		2,541	62,239
Qualcomm Inc.		1,282	57,853
Cisco Systems Inc.		2,344	51,338
Other		-	736,651
	4.32 %		1,029,660
Financial Services			
JP Morgan Chase & Co.		2,063	78,523
Bank of America Corp.		3,779	49,542
Wells Fargo & Co.		2,778	69,807
Other		-	730,808
	3.90		928,680
Consumer Discretionary	2.49	-	593,551
Industrials	2.46	-	586,878
Health Care			
Johnson & Johnson		1,142	70,749
Other		-	513,718
	2.45		584,467
Energy			
Exxon Mobil Corp.		824	50,902
Conoco Phillips		856	49,177
Chevron Corp.		703	56,980
Other		-	328,050
	2.04		485,109

(Continued)

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

CONDENSED SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2010
($ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
EQUITY (Continued)			
Consumer Staples			
Pepsico Inc.		1,022	$ 67,930
Proctor & Gamble		844	50,588
Other		-	249,352
	1.55 %		367,870
Materials	0.68	-	161,776
Utilities	0.67	-	160,469
Telecommunications			
AT&T Inc.		1,799	51,456
		-	101,567
	0.64		153,023
Other Common Stocks	0.01	-	1,626
Total Common Stocks	21.22		5,053,109
Unit Trusts			
Blackrock Russell 1000 Index Fund		94,962	1,376,671
Blackrock Russell 2000 Equity Index Fund		25,802	401,874
Blenheim Commodity Fund		117	370,742
Blenheim Commodity Fund Class B		100	105,675
Paulson Advantage Ltd Class A		150	53,868
Davidson Kempner Intl Ltd Class C		500	50,720
Other		-	733
	9.91		2,360,283
Other US Equity Securities (a)	0.30		71,828
Total US Equity	31.44		7,485,220

(Continued)

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

CONDENSED SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2010
($ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
EQUITY (Continued)			
Non US Equity			
Unit Trusts			
Blackrock EAFE Value Index Fund		141,164	$ 1,180,402
Blackrock EAFE Growth Index Fund		76,418	988,797
Blackrock MSCI EAFE Equity Index Fund		41,348	639,101
Blackrock World ex-US Small Cap Equity Index Fund		46,687	589,221
Blackrock MSCI Equity Index Fund (Canada)		4,641	312,985
Blackrock Emerging Markets Index Fund		15,479	293,193
Other			2,792
	16.83 %		4,006,491
Common Stocks (c)			
United Kingdom	1.17		277,808
Japan	0.91		215,876
China	0.86		205,242
Canada	0.64		152,605
Korea	0.62		147,838
India	0.57		136,602
France	0.51		121,208
Hong Kong	0.47		111,852
Taiwan	0.44		104,439
Germany	0.44		104,176
Other Common Stock	4.22		1,003,683
			2,581,329
Preferred Stocks	0.51	-	122,027
Total Non US Equity	28.18 %		6,709,847

(Continued)

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

CONDENSED SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2010
($ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
EQUITY (Continued)			
Private Equity			
Providence Total Market Trust Special Situations Feeder, LP		87,758	$ 113,738
Campbell Opportunity Timber Fund, LP		99,341	109,310
Blackstone Capital Partners V, LP		91,355	94,347
Angelo Gordon GECC PPIF Holdings		76,719	85,738
Warburg Pincus Private Equity IX, LP		58,304	72,491
Apollo Investment Fund VI, LP		61,529	70,272
Blackstone Credit Liquidity Partner, LP		53,204	68,185
OCM Opportunities Fund VII B, LP		45,000	65,050
First Reserve Fund XI, LP		51,871	55,054
Warburg Pincus Private Equity X, LP		58,026	50,871
Apollo Investment Fund VII, LP		39,437	45,553
Providence Equity Partners VI, LP		43,074	45,496
Other		-	994,663
Total Private Equity	7.86 %		1,870,768
Total Equity (Cost $15,028,414)	67.48		16,065,835
FIXED INCOME			
Government Notes and Bonds (c)			
US Treasury Notes 3.625%, 8/15/2019		208,700	229,505
US Treasury Notes 2.625%, 7/31/2014		90,843	96,705
US Treasury Notes 1.75%, 4/15/2013		92,870	95,677
Government of Japan Bonds, 1.9%, 3/22/2021		3,900,000	50,816
US Treasury Bonds 4.375%, 5/15/2040		42,596	47,841
Republic of Poland Bonds, 5.25%, 10/25/2017		133,890	45,868
Other		-	2,039,486
	10.94		2,605,898
Corporate Bonds	8.02	-	1,908,784
Government – Sponsored Mortgage Backed Securities (“MBS”)			
FNMA 30 Single Family Mortgages, 5.5%, October		52,800	56,125
Other		-	996,371
	4.42		1,052,496

(Continued)

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

CONDENSED SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2010
($ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
FIXED INCOME (Continued)			
Unit Trusts			
Bridgewater Pure Alpha II Ltd Class B		404	$ 504,304
Bridgewater All Weather Portfolio Ltd Class B		209	209,774
King Street Capital, Ltd Class A Series 3 Fund		748	94,815
Other		-	92,176
	3.78 %		901,069
Short Term Bills and Notes			
US Treasury Bills 12/23/2010		100,661	100,629
US Treasury Bills 11/18/2010		97,520	97,504
Other		-	38,895
	1.00		237,028
Government Agencies	0.86		204,069
Non-Government CMOs	0.79		187,419
Commercial Mortgage-Backed Securities	0.60		142,118
Index-Linked Government Bonds	0.56		133,173
Asset Backed Securities	0.37		88,468
Other Fixed Income Securities (b)	0.65		151,595
Total Fixed Income (Cost $7,066,575)	31.97		7,612,117
Total Investments in Securities (Cost $22,094,989)	99.45		23,677,952
Other Assets less Liabilities	0.55		131,477
NET ASSETS	100.00 %		$ 23,809,429

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, CDs and Short-Term Investment Funds.
(c) Includes investment securities denominated in a foreign currency that are translated into US dollars using foreign exchange spot rates as of the balance sheet date and presented as such.

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010
($ in thousands)

INCOME:	
Interest	$ 284,178
Dividends	168,079
Other income	49
Total income	452,306
EXPENSES:	
Investment management fees	65,242
Compensation	3,309
Professional fees	2,196
Trustee fees and expenses	269
Custodial fees	108
Other expenses	6,041
Total expenses	77,165
NET INVESTMENT INCOME	375,141
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:	
Net realized gain (loss) from investments and foreign currency	417,126
Net increase (decrease) in unrealized gain (loss) on investments and foreign currency	1,673,419
NET REALIZED AND UNREALIZED GAIN FROM INVESTMENTS AND FOREIGN CURRENCY	2,090,545
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 2,465,686

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010
($ in thousands)

INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:	
Net investment income	$ 375,141
Net realized gain (loss) from investments and foreign currency	417,126
Net change in unrealized gain (loss) on investments and translation of assets and liabilities in foreign currencies	1,673,419
Net increase in net assets resulting from operations	2,465,686
ASSETS TRANSFERRED TO THE TREASURY	(1,989,000)
NET ASSETS:	
Beginning of year	23,332,743
End of year	$ 23,809,429

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

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.

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

Valuation of Investments — Commingled funds and hedge 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, 2010 totaled approximately $7.3 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.

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.

The Trust follows the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Fair Value Measurements and Disclosures Topic ("Topic 820"). The Topic 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.

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 ($ in thousands):

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities	$7,764,435	$ 6,269,047	$2,032,353	$16,065,835
Government notes and bonds		1,950,042	655,856	2,605,898
Corporate bonds	14,779	1,704,901	189,104	1,908,784
Government MBS		1,052,496		1,052,496
Short-term bills and notes		236,121	907	237,028
Other fixed income securities		917,547	890,364	1,807,911
Total investments in securities	$7,779,214	$12,130,154	$3,768,584	$23,677,952
Swap contracts	$ -	$ 3,629	$ -	$ 3,629
Futures contracts	2,280			2,280
Foreign currency exchange contracts		200,163		200,163
Foreign currency		21,295		21,295

Liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Swap contracts	$ -	$ (5,215)	$ -	$ (5,215)
Futures contracts	(2)			(2)
Foreign currency exchange contracts		(261,763)		(261,763)
Written options		(6,404)		(6,404)

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

	Investments in Securities
Balance — September 30, 2009	$2,918,155
Purchases and other acquisitions	1,329,208
Sales and other settlements	(885,987)
Change in unrealized gain (loss)	571,657
Realized gain (loss)	(6,272)
Net transfers in (out) of Level 3	(158,177)
Balance — September 30, 2010	$3,768,584

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, 2010, the Trust held approximately $8.8 million of restricted cash. Of this amount, $4.5 million represented initial margin on futures contracts, while $4.3 million represented pledged collateral for swap agreements.

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, 2010, were as follows:

	Number of Contracts	**Premiums**
Options outstanding — September 30, 2009	(178,941)	$ (4,145)
Options written	(7,805,113)	(24,205)
Options exercised/expired	7,542,814	23,808
Options outstanding — September 30, 2010	(441,240)	$ (4,542)

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.

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. As of September 30, 2010, the Trust held approximately $4.5 million of restricted cash representing the initial margin on futures contracts. Futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade.

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. As of September 30, 2010, the Trust held approximately $4.3 million of restricted cash representing collateral pledged related to swap contracts.

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 the Income Taxes Topic ("Topic 740") of the FASB ASC. 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. DERIVATIVE INSTRUMENTS

GAAP requires disclosures that enable investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect the Trust's financial position. As of September 30, 2010, the Trust invested in derivative contracts, primarily futures, forwards, options and swaps. Derivative contracts serve as components of the Trust's investment strategy as described in Note 2. The following table summarizes the value of asset and liability derivatives as of September 30, 2010.

Risk Exposure	Location within statement of assets and liabilities	Fair Value ($ in thousands)
Purchased Options	Investments in securities — at fair value	$ 7,332
Swap Contracts	Unrealized gain on swap contracts	3,629
Swap Contracts	Unrealized loss on swap contracts	(5,215)
Futures Contracts	Other Assets	2,280
Futures Contracts	Other Liabilities	(2)
Foreign Currency Exchange Contracts	Unrealized gain on foreign currency exchange contracts	200,163
Foreign Currency Exchange Contracts	Unrealized loss on foreign currency exchange contracts	(261,763)
Written Options	Options written — at fair value	6,404

4. 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 $9.9 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2010, approximately $2.0 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 $1.6 million in legal fees during the fiscal year ended September 30, 2010. 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 is also engaged to provide investment management services for a portion of Trust assets.

5. 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, 2010, the Trust made contributions of $210,677 to the Plan on behalf of the employees.

6. 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.

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
2011	$ 423,526
2012	433,902
2013	369,324
2014	
2015	
Thereafter	
Total	$1,226,752

Private Equity Investments — As of September 30, 2010, the Trust had commitments to invest up to an additional $1.07 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.

7. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2010.

	October 1, 2009 — September 30, 2010
FINANCIAL RATIOS (1):	
Expense to average net assets	0.33 %
Net investment income to average net assets	1.59
TOTAL RETURN (2) — Total return	11.15 %

(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.

8. 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.

9. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2009, the FASB issued two standards changing the accounting for securitization requiring more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. The FASB also changed how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The new guidance was effective for the Trust on January 1, 2010. The adoption of the guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets.

In August 2009, the FASB issued guidance providing 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 interim and annual reporting periods beginning after December 15, 2009 (except for the activity in the rollforward of Level 3 fair value measurements, which is effective for fiscal years and interim periods beginning after December 15, 2010). The adoption of the guidance (that was effective as of December 31, 2009) did not have a material impact on the Trust's financial position, operations, or changes in net assets.

Effective October 1, 2009, the Trust adopted guidance issued by the FASB that seeks to improve financial reporting by organizations with variable interest entities. This guidance addresses (1) the effects on certain provisions of GAAP as a result of the elimination of the qualifying special-purpose entity concept, and (2) constituent concerns about the accounting and disclosures that do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of this guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets.

Effective October 1, 2009, the Trust adopted guidance issued by the FASB, which clarifies the type of embedded credit derivative that is exempt from bifurcation. This guidance requires that the only form of embedded credit derivatives that qualify for the exemption are credit derivatives related to the subordination of one financial instrument to another. For securities no longer exempt under the new guidance, companies may continue to forgo bifurcating the embedded derivatives if they elect, on an instrument-by-instrument basis, and report the security at fair value with changes in fair value reported through the statement of operations. The adoption of this guidance did not have a material impact on the Trust's financial position, operations, or changes in net assets.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance requires additional disclosure on transfers in and out of Levels I and II fair value measurements in the fair value hierarchy and the reasons for such transfers. In addition, for fair value measurements using significant unobservable inputs (Level III), the reconciliation of beginning and ending balances shall be presented on a gross basis, with separate disclosure of gross purchases, sales, issuances and settlements and transfers in and transfers out of Level III. The new guidance also requires enhanced disclosures on the fair value hierarchy to disaggregate disclosures by each class of assets and liabilities. In addition, an entity is required to provide further disclosures on valuation techniques and inputs used to measure fair value for fair value measurements that fall in either Level II or Level III. The guidance is effective for interim and annual periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level III fair value measurements, which are effective for fiscal years beginning after December 15, 2010. The adoption of this guidance is not expected to have a material impact on the Trust's financial position, operations, or changes in net assets.

10. SUBSEQUENT EVENTS

In accordance with the Subsequent Events Topic of the FASB ASC, the Trust has evaluated subsequent events through November 15, 2010, the date these financial statements were issued.

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APPENDICES

APPENDICES

A) BY-LAWS

B) INVESTMENT GUIDELINES

C) MEMORANDUM OF UNDERSTANDING

D) CONFLICTS OF INTEREST POLICY STATEMENT

E) CONFIDENTIALITY POLICY STATEMENT

F) PROXY VOTING POLICY

G) CHIEF INVESTMENT OFFICER, SENIOR OPERATING OFFICER AND SENIOR ACCOUNTING OFFICER CERTIFICATION LETTERS

H) RAILROAD RETIREMENT BOARD CERTIFICATION LETTER TO TREASURY AND TREASURY FEDERAL REGISTER NOTICE ON 2011 TAX RATE

I) NOTICE TO THE RAILROAD RETIREMENT BOARD AND ACCEPTANCE OF NEW TRUSTEES

J) BIOGRAPHICAL INFORMATION ON TRUSTEES AND STAFF