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NRRIT

National Railroad Retirement Investment Trust

Annual Management Report

for Fiscal Year 2006

NRRIT

National Railroad Retirement Investment Trust

Annual Management Report for Fiscal Year 2006
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, 2006

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1) Introductory Statement

Fiscal year 2006 was a year of continued growth for the National Railroad Retirement Investment Trust ("Trust"), as the Trust moved to further diversify its portfolio consistent with its Investment Plan (the "Plan"). During the fiscal year, the Trust increased the number of its investment managers, took additional steps away from a fully indexed investment portfolio and approved two new asset classes for investment. It was also a year of transition, as the Board of Trustees ("Board") completed a national search to identify a new Chief Investment Officer ("CIO") to fill the vacancy created by the planned retirement of its first CIO.

The net asset value of Trust-managed assets increased from $27.7 billion on October 1, 2005 to $29.4 billion on September 30, 2006. This amount is net of $947 million that the Trust transferred back to the US Treasury for railroad retirement (tier 2) benefit payments during the fiscal year. The Trust achieved a 9.8% net rate of return on the investment of its assets for the fiscal year, close to the composite benchmark for Trust-managed assets which returned 10.0% for the year.

At the beginning of this fiscal year, total railroad retirement assets (Trust-managed assets and reserves maintained in the two railroad retirement system accounts at the Treasury) equaled $29.0 billion. As of September 30, 2006, total railroad retirement system assets equaled $30.6 billion.

During the fiscal year, the Trust focused on implementation of its Plan to further deploy the Trust's assets beyond indexation in a manner consistent with its Investment Guidelines. Steps taken during the fiscal year included retention of additional large-cap managers, as well as the first mid-cap and micro-cap managers to invest a portion of the US equity portfolio. The Trust made a number of additional commitments to private equity partnerships during the fiscal year. The Trust's Board also approved changes to its Investment Guidelines to add two new asset classes, real estate and commodities, and made its initial investments in these asset classes. Finally, the Trust commenced a detailed study of the Trust's investment design. This work will continue in fiscal year

2007.

The Board of Trustees met thirteen times during the course of the year to consider the various investment and management matters (including its work on the new CIO search) that are discussed in this fifth Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibility. 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 2006, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2006. Railroad management appointed Linda Hurt, Assistant Vice President-Finance and Treasurer, Burlington Northern Santa Fe Corporation and BNSF Railway Company, to a three-year term that expires on January 31, 2009. Railway labor unions appointed Geroge J. Francisco, Jr., President, National Conference of Firemen & Oilers, SEIU, to a new three-year term that expires on January 31, 2009. In addition, the Trustees selected Mr. Francisco, as the Chair of the Board of Trustees for the period February 1, 2006-January 31, 2007.

Ms. Hurt and Mr. Francisco joined the following five members of the Board: *For terms expiring on January 31, 2007*: Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railway Signalmen, and Bernie Gutschewsi, Vice President, Taxes, Union Pacific Corporation. *For terms expiring on January 31, 2008:* James A. Hixon, Executive Vice President Law and Corporate Relations, Norfolk Southern Corporation; Joel Parker, Special Assistant to the President and International Vice President, Transportation Communications International Union (TCU/IAM); and John W. MacMurray, the Independent Trustee.

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 during 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. In December 2005, the Treasury hosted a meeting with Trust staff and representatives of the Northern Trust, the Trust's primary custodian, to review certain aspects of the MOU requirements to see if the data formatting and transmittal process included in the MOU could be streamlined and simplified. As a result of consideration of these issues among the Trust, its custodian, and the various government entities during the course of the fiscal year, a number of revisions to the MOU were agreed to.

During fiscal year 2006, the Trustees, the Chief Investment Officer and Trust 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. The senior staff of the two organizations and Trust legal counsel met after each meeting of the Trust Board, and the Trustees and the Members of the RRB met twice during the year.

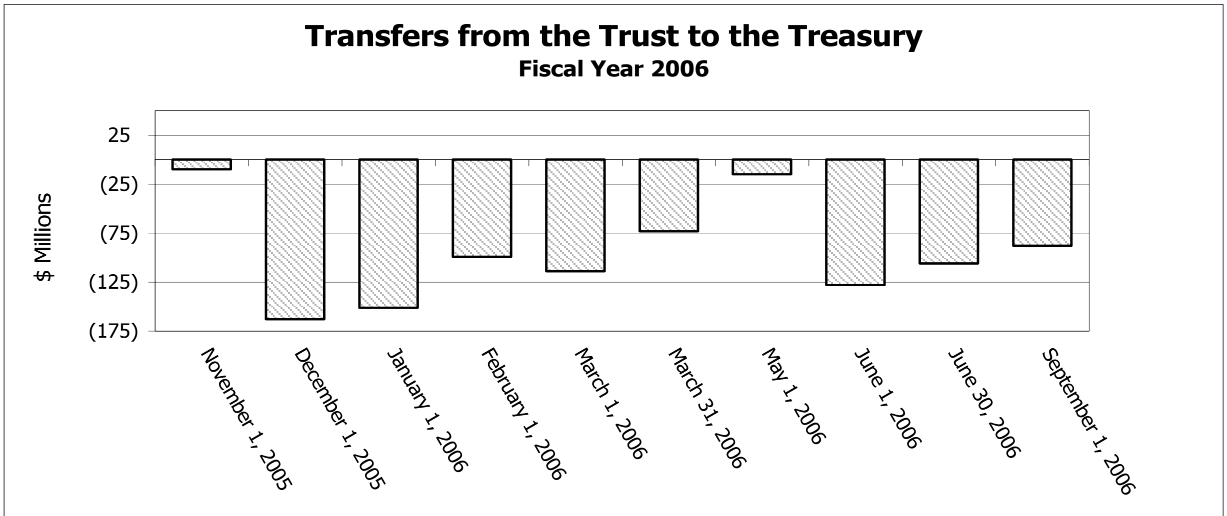
On May 10, 2006, Trustees Hixon and Parker testified on behalf of the Trust at an oversight hearing held by the Subcommittee on Railroads of the House Committee on Transportation and Infrastructure. In addition, the Trust prepared brief Quarterly Updates that were transmitted to the Congressional committees of jurisdiction and posted on the RRB website to be available to all other interested parties.

During 2006, the Trust also consulted with the RRB on its 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. The Trust, in coordination with the RRB, also agreed to provide an audited schedule of investments in securities, cash and cash equivalents to the RRB at the end of each calendar year for use in the preparation of its annual Statement of Social Insurance.

c) Transfers to and from the Treasury

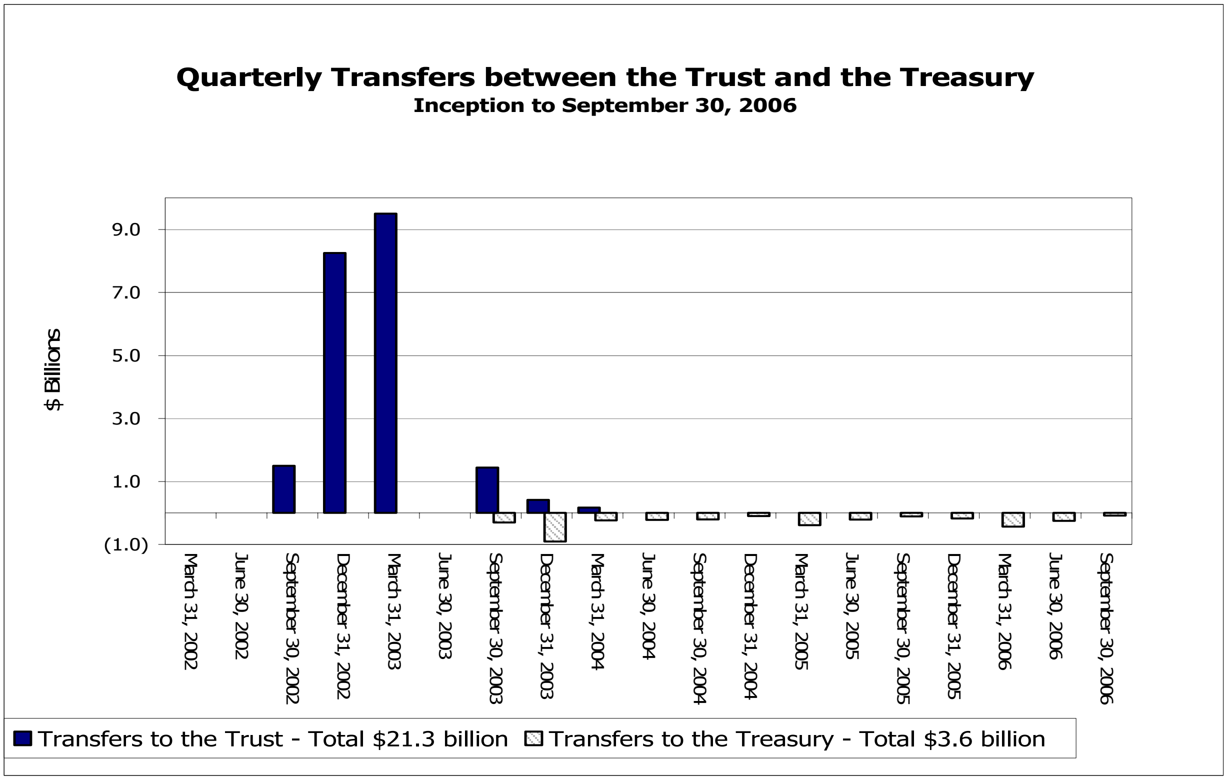
The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received $21.3 billion of railroad retirement system funds. The Trust received no transfers from the Treasury in fiscal years 2005 and 2006. 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 2006, the Trust transferred a total of $947 million 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 2006.



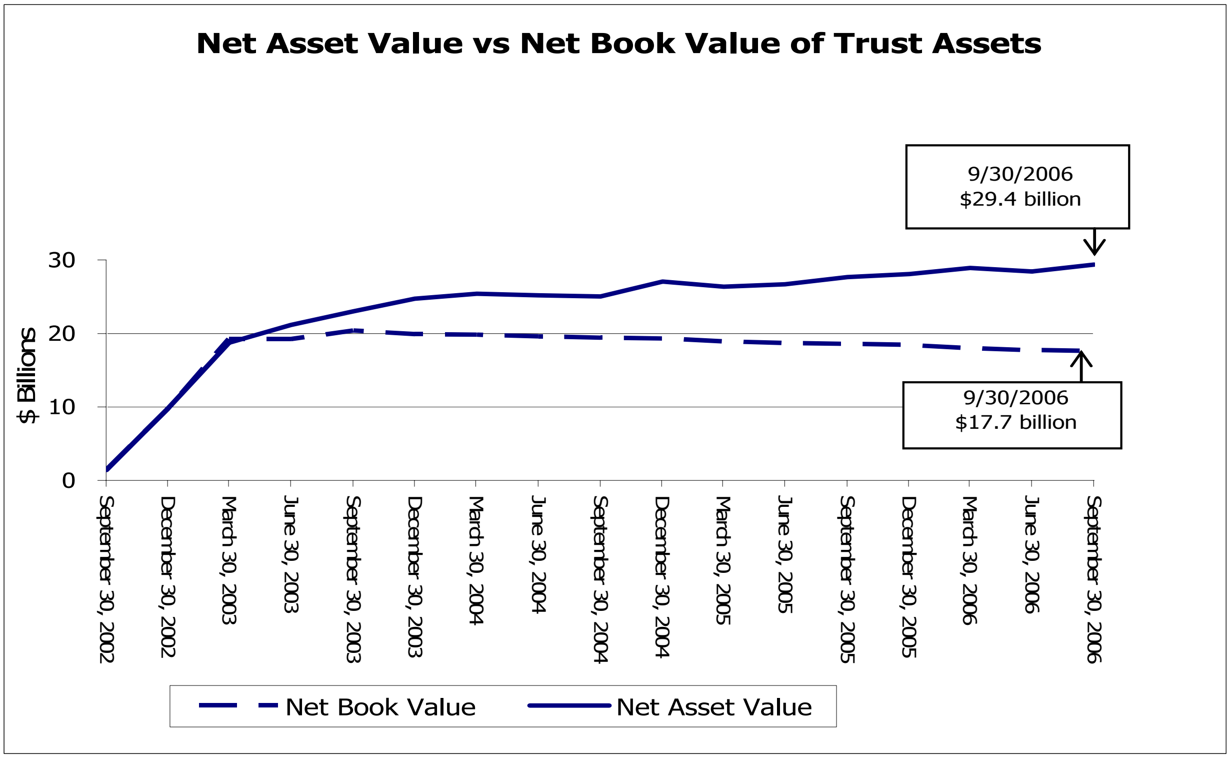
*No transfers were required October 2005 or August 2006. The transfer for April 2006 was made on March 31st and for July 2006 was made on June 30th.

Summary of transfers: From its inception in February 2002 to September 30, 2006, the Trust received $21.3 billion from the Treasury and transferred $3.6 billion back to the Treasury. The net book value of funds received from the Treasury since inception, therefore, is $17.7 billion. The following graph displays the quarterly cash transfers between the Trust and the Treasury since inception.



* For the Quarter ended March 31, 2002, the Trust received $2 million from the Treasury. No transfers were made during the quarter ended June 30, 2002, and June 30, 2003.

The assets received by the Trust were invested in a diversified multi-asset class portfolio in accordance with the Trust's investment policy. This diversification of assets has allowed the Trust's assets to grow beyond their original book value. As of September 30, 2006, the net asset value of the Trust-managed assets totaled $29.4 billion, representing an increase of $11.7 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 for investment. 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 fair market value of the assets in the RRA and the Trust as of the close of the fiscal year to the total benefits and 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 for calendar years beginning 2004.

As provided in the Act, the RRB computed the account benefits ratio for fiscal year 2006 and certified the ratio to the Secretary of the Treasury on October 19, 2006. The Secretary determined the AABR for fiscal year 2006 and on November 22, 2006 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2007. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The account benefits ratio increased from 7.49 for fiscal year 2005 to 7.61 for fiscal year 2006. The ten-year average account benefits ratio increased from 6.4 for fiscal year 2005 to 6.6 for fiscal year 2006.

e) Staff Update

In April of 2006, Neil Kotras joined the Trust as Senior Accounting Officer. Mr. Kotras has primary responsibility for ensuring the Trust's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"), and ensuring that appropriate internal controls are in place and are operating effectively. Enos T. Throop, Jr., Chief Investment Officer, retired from the Trust effective September 30, 2006. In anticipation of his retirement, NRRIT Trustees initiated a search process in late 2005 to identify a replacement. The Trustees selected William J. Raver to be NRRIT's new Chief Executive Officer and Chief Investment Officer effective July 1, 2006. Mr. Raver comes to the Trust from the Verizon Investment Management Corp. (VIMCO) where he has served as Chief Operating Officer since 2003. In that role he was responsible for development of the investment policy and directed investment activities for the retiree life, health, savings and affiliate plans sponsored by Verizon Communications Corporation. From 1997 to 2003, he served as VIMCO's Managing Director in charge of externally-managed public and private investment portfolios. Biographical information on the Trust's staff members can be found in Appendix J.

3) Operations of the Trust: Investment Matters

As the Trust received funds from the Treasury during fiscal year 2002 and fiscal year 2003, those funds were invested in commingled fund accounts separated by asset class and managed by Barclays Global Investors ("BGI"), one of the largest index fund managers in the US. The Trust chose indexation as the best method to diversify its investment exposure quickly and cost-effectively as it received railroad retirement system funds. During fiscal years 2004 through 2006, the Trust began the process of moving its portfolio away from indexation and into active management. (See Annual Management Reports for Fiscal Years 2002 through 2005.) Section 3(a) discusses continued progress during fiscal year 2006 towards implementation of the Plan adopted by the Trustees; Section 3(b) reviews the Trust's investment performance, by asset class, during the fiscal year.

a) Implementation of Investment Plan

The Plan initially adopted by the Trustees during fiscal year 2003 addressed each of the asset classes in the Trust's portfolio. Drafts of each portion of the Plan have been considered, refined and approved by the Trustees. The Plan outlines the process through which the Trust will fully diversify its assets over a reasonable time in a prudent and cost-effective manner. The Plan identifies the investment thesis, portfolio structure, performance benchmark, and return and risk expectations for the Trust's entire portfolio, providing a similar analysis for each asset class. It sets a target for the level of the Trust's diversification within each asset class between indexed and actively-managed assets (excepting those asset classes, where indexation is not possible), based on an assessment of the potential for active management to add value to expected market returns, net of expenses and at reasonable levels of risk. The Plan is an internal working document subject to ongoing review by the Trust to ensure that its assumptions reflect the ever-changing investment environment.

During fiscal year 2006, sections were added to the Plan addressing real estate and commodities, to reflect the Trust's evolving investment policy in those areas. Sections of the plan are updated as appropriate, and new sections are added as needed to address new investment initiatives. Also during fiscal year 2006, staff provided the Trustees with asset class reviews examining the outlook for investments in private equity and fixed income and the Trust's implementation progress in those areas to date.

i) US equity

In US equity, the Trust's second-largest asset class with a target allocation of 30% of the total portfolio, the Trust's goal is to construct a portfolio which combines indexation and active management in order to achieve performance in excess of the market at reasonable levels of risk. Implementation during fiscal year 2006 focused primarily on active mid-capitalization ("mid-cap") and micro-capitalization ("micro-cap") strategies. This section will review implementation activities during fiscal year 2006, beginning with the large-capitalization area and followed by smaller-capitalization strategies.

Large-capitalization: During fiscal year 2006, the Trustees approved additional funding to an active large-cap core manager approved in fiscal year 2004. Four large cap growth managers approved in fiscal year 2005 were also funded early in fiscal year 2006, increasing the allocation to traditional active managers in the large-cap sector. Large-cap securities are typically highly liquid and trade relatively efficiently; these managers use fundamental analysis and/or quantitative techniques in a risk-controlled context. While portfolios are constructed with attention to the benchmark, active managers take positions different from the benchmark, seeking better performance.

Mid-capitalization: During fiscal year 2006, the Trustees approved the hiring of three mid-cap managers. The mid-cap arena includes companies which frequently have less research coverage from Wall Street analysts, which may provide managers with opportunities to outperform benchmark indices.

Micro-capitalization: The Trustees approved the hiring of two micro-cap managers during fiscal year 2006. Micro-cap stocks are frequently illiquid (i.e., they do not trade in volumes as great as large-cap stocks) and are often neglected by large institutional money managers and brokerage research operations. This can result in inefficiently-priced securities, which in turn may allow managers to provide excess performance over benchmark indices.

ii) Non-US equity

Non-US equity is targeted at 20% of the overall Trust portfolio. The Trust's goals for the non-US equity asset class are to take advantage of its excess return potential relative to the US markets over a long-term time horizon, to help diversify Trust investments, and to lower overall Trust portfolio volatility through non-correlated returns. During fiscal year 2006, the Trust's non-US equity exposure was achieved through investment in the MSCI World ex-US index, combined with two enhanced index managers which had been approved during fiscal year 2005 and were funded early in fiscal year 2006; no other new managers were funded in this area during fiscal year 2006.

iii) Fixed income

Fixed income is the Trust's largest asset class targeted at 35% of the total portfolio. The Trust's goal for this asset class is a portfolio that will provide liquidity, generate a stable income stream, help to diversify Trust investments, reduce overall Trust portfolio risk, and serve as a hedge against the negative consequences of potential deflation. No new managers were funded in this area during fiscal year 2006.

iv) Private equity

In private equity, targeted at 5% of the total Trust portfolio, the Trust's goal is to build a portfolio that will outperform public equity indices in exchange for the illiquidity of private investments. The portfolio will be diversified across sectors (from venture capital to corporate finance/buyouts to distressed investing), by vintage year (year the fund is formed), by industry and by geographic region. Private equity differs from the Trust's other major asset classes in two critical ways: First, private equity investment cannot be indexed, and second, it is primarily an opportunistic asset class, because private equity funds have limited lives and only accept investments during specified periods, after which they close to new investors.

During fiscal year 2006, the Trustees approved investment in eight private equity limited partnerships. These partnerships covered the spectrum from venture capital to corporate finance, plus special situations, and will provide the Trust with exposure to a range of industries and strategies.

v) Real estate

As a result of the 2004 asset allocation review, NRRIT added a 5% target allocation to real estate. This allocation is intended to improve portfolio diversification while providing a competitive risk-adjusted return and a hedge against inflation. The Trust's real estate portfolio will focus on equity investment in real estate. During fiscal year 2006 Trustees approved initial mandates to three managers of REITs, publicly-traded real estate securities; these mandates will be funded over time to achieve an optimal average entry price.

vi) Commodities

As a result of the 2004 asset allocation review, NRRIT added a 5% target allocation to commodities. Like the real estate allocation, the commodities allocation is intended to improve portfolio diversification due to the low correlation of commodity returns with the returns of other asset classes in the Trust portfolio; it should also provide steady returns which can benefit from global economic trends over the next ten to fifteen years, as well as an inflation hedge. The Trust inaugurated its investment in commodities with an allocation to an enhanced commodity index product. As a result of the very low correlations in return among individual commodities, there are significant opportunities for active managers to add value compared with benchmark index returns in this asset class; a significant portion of the Trust's commodities allocation will likely be invested with active managers over the next several years.

vii) Proxy voting policy

In April of 2003, the Trust adopted a general 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 allocates to 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.

As required by the proxy voting policy, during fiscal year 2006 those managers who had proxy-voting responsibilities were asked to certify that they had 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 each manager's proxy voting record with respect to Trust securities.

b) Investment Performance

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 3.9% of the total, or $1.2 billion out of $30.6 billion as of September 30, 2006, is held in the form of reserves that are invested by the RRB in a particular type of federal government security called Par Value Specials. In determining its asset allocation, the Trust takes into account these reserves, and sets its investment benchmarks accordingly. The following discussion focuses on the investment performance of Trust-managed assets only, beginning with the total portfolio and then addressing major asset classes. All performance is quoted net of fees.

Overall performance: For fiscal year 2006, the investment return on

Trust-managed assets was 9.8%. This was slightly less than the Trust's composite benchmark, which returned 10.0%. The Trust's performance exceeded benchmark performance in non-US equity and fixed income.

US equity: The Trust's US equity portfolio returned 9.6% during fiscal year 2006, compared with a return of 10.4% on the Trust's US equity benchmark, the Dow Jones Wilshire 5000. Large-cap value managers were not able to match the strong performance of the large-cap value index during the year; however, some of the Trust's quantitatively-oriented managers turned in strong performances.

Non-US equity: The Trust's non-US equity portfolio returned 19.2% during fiscal year 2006, compared with a return of 18.7% on the Trust's non-US equity benchmark, the MSCI World Ex-US index. While the majority of the non-US equity portfolio remained indexed, the Trust's two enhanced managers, funded early in fiscal year 2006, outperformed the index. In addition, in non-US equities, index managers may be able to add value over the benchmark via securities lending and other techniques, as did the Trust's index manager during fiscal year 2006.

Private equity: The Trust's private equity portfolio is in the early stages of commitment, and reported performance is therefore not yet meaningful. Invested funds totaled $200 million at September 30, 2006.

Fixed income: The Trust's fixed income portfolio returned 3.8% during fiscal year 2006, compared with a return of 3.7% on the Trust's fixed income benchmark, the Lehman Brothers Aggregate bond index. While all strategies of the fixed income portfolio exceeded their benchmarks, the strongest relative performance came from core and core-plus managers.

Allocation exposure: During fiscal year 2006, in periods when the non-US equity markets were performing strongly, they represented a higher percentage of the total portfolio's market value than the target percentage in the Trust benchmark. Similarly, during periods when fixed-income markets were not performing well, they represented a lower percentage of the total portfolio's market value than the target percentage in the Trust benchmark. These allocation exposures contributed positively to the Trust's overall portfolio performance compared with the benchmark. Actual allocation to any asset class may deviate from the policy target, but must remain within the policy target ranges set forth in the investment guidelines. During fiscal year 2006, allocation to all asset classes remained within the approved policy target ranges. When liquidations were required to fund RRA benefit obligations or expenses, assets were liquidated from the asset class most over-weighted relative to its target.

Summary: The railroad retirement assets under the Trust's management under-performed the overall benchmark during fiscal year 2006, net of investment management and related fees, by approximately 20 basis points, with an investment return of 9.8% compared with a benchmark return of 10.0%. At fiscal year-end, the net asset value of assets overseen by the Trust totaled $29.4 billion, and the total value of railroad retirement system assets, including those held at the Treasury, was $30.6 billion.

Continued diversification away from indexation in most major asset classes resulted in retention of 17 new managers during the fiscal year. At year end, approximately 40% of the Trust investments were actively managed in more than 55 investment mandates.

The Trust's Fiscal Year 2005 benchmark return was revised to 13.3% from 13.0%

2) Audit Committee

The Audit Committee met quarterly during fiscal year 2006. The Audit Committee provided oversight and monitoring of the fiscal year 2005 audit, and considered the Deloitte & Touche Audit Management Letter for the previous fiscal year. With respect to recommendations contained in the Audit Management Letter, the Audit Committee hired a Senior Accounting Officer experienced in applying generally accepted accounting principles for investment companies. In addition, the Trust selected a general ledger and financial reporting software provider to improve efficiency of operations and reduce the risk of manual error in the preparation of Trust financial statements. Finally, the Trust staff developed proposed pricing policies and procedures to address recently issued FASB accounting requirements relating to fair value measurements. These policies and procedures will be submitted to the Audit Committee for review and approval during fiscal year 2007.

During fiscal year 2006, the Audit Committee engaged Ernst & Young to perform an internal risk assessment of the Trust's operations. Ernst & Young issued its report which described the Trust's key risks, the processes and controls in place to mitigate those risks, and observations of minor enhancements that could be made to strengthen the overall internal control structure of the Trust.

The Audit Committee engaged Deloitte & Touche to perform an interim audit of the Trust's schedule of investments in securities, cash and cash equivalents as of December 31, 2005. The completion of this audit as of the end of the calendar year was necessary in order for the RRB to file its annual Statement of Social Insurance. This will be an annual recurring incremental audit for the Trust in the future.

Finally, during the fiscal year, 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.

3) Internal Accounting and Administrative Controls

During fiscal year 2006, 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.

Safekeeping: The Trust's assets are held in safekeeping 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 moves from indexation to separately-managed accounts, the custody of those assets will be transferred from the sub-custodian to the Trust's primary custodian.

Accounting: Northern Trust provides the Trust with a full accounting and performance record of all transactions involving Trust assets. Reconciliations of the primary custodian records to the investment manager's records are performed monthly. The Trust's staff 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 custodian bank form the basis for the Trust's various required reports and financial statements.

The Trust hired a Senior Accounting Officer with nine years of experience in accounting for investment companies. The Senior Accounting Officer has primary responsibility for ensuring the Trust's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"), and ensuring that appropriate internal controls are in place and are operating effectively.

Operations: During fiscal year 2006, the Trust continued to enhance its accounting policies and procedures to address relevant authoritative accounting guidance. The Trust also completed its search for a general ledger and financial reporting software platform. This software will interface with the custodian's accounting system and expedite the preparation of financial statements in a GAAP compliant format, eliminating the manual process now required. The software will be implemented during fiscal year 2007.

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Financial Statements and Independent Auditor’s Report

National Railroad Retirement Investment Trust

Financial Statements for the Fiscal Year Ended September 30, 2006, and Independent Auditors' Report

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

TABLE OF CONTENTS

Deloitte

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INDEPENDENT AUDITORS' REPORT

To: 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, 2006 and the related statements of operations, changes in net assets, cash flows, and the financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights 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 and financial highlights 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, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the National Railroad Retirement Investment Trust as of September 30, 2006 the results of its operations, the changes in its net assets, its cash flow, and its financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

November 15, 2006

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF ASSETS AND LIABILITIES
AS OF SEPTEMBER 30, 2006
($ In thousands)

ASSETS		
INVESTMENTS IN SECURITIES - At value (cost, $28,314,237)	$	33,118,825
CASH AND CASH EQUIVALENTS (including restricted cash of $407)		528,329
CASH DENOMINATED IN FOREIGN CURRENCY - At value (cost, $11,153)		11,075
RECEIVABLE FOR INVESTMENTS SOLD		682,212
INTEREST RECEIVABLE		36,350
DIVIDENDS RECEIVABLE		18,280
UNREALIZED GAIN ON SWAP CONTRACTS		4,669
UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS		3,815
VARIATION MARGIN RECEIVABLE		108
OTHER ASSETS		2,179
Total assets		34,405,842
LIABILITIES		
OBLIGATION TO RETURN SECURITIES LENDING COLLATERAL		3,614,252
PAYABLE FOR INVESTMENTS PURCHASED		1,375,309
UNREALIZED LOSS ON SWAP CONTRACTS		19,705
ACCRUED MANAGEMENT FEES		9,626
UNREALIZED LOSS ON FOREIGN CURRENCY EXCHANGE CONTRACTS		7,644
OPTIONS WRITTEN - At value (premiums received, $1,880)		3,123
VARIATION MARGIN PAYABLE		194
OTHER LIABILITIES		3,237
Total liabilities		5,033,090
NET ASSETS	$	29,372,752
ANALYSIS OF NET ASSETS		
NET ASSETS CONTRIBUTED TO THE TRUST	$	17,655,954
ACCUMULATED NET REALIZED GAIN ON INVESTMENTS		6,055,093
ACCUMULATED NET UNREALIZED GAIN ON INVESTMENTS		4,784,899
ACCUMULATED NET INVESTMENT INCOME		876,806
TOTAL NET ASSETS	$	29,372,752

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2006
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)	Value
US Equity		
Common Stocks		
Financial Services, 10.8%		
Citigroup, Inc.	4,020	$ 199,652
Bank of America Corporation	3,706	198,521
JPMorgan Chase & Co	3,427	160,933
American International Group, Inc	1,498	99,246
Goldman Sachs Group, Inc	477	80,677
Wachovia Corporation	1,386	77,350
Wells Fargo & Co	1,998	72,294
Berkshire Hathaway, Inc	1	69,934
Morgan Stanley	935	68,166
Federal Home Loan Mortgage Corporation	876	58,083
St Paul Travelers Company, Inc	1,201	56,315
Other	-	2,033,528
Total Financial Services (Cost, $2,772,841)		3,174,699
Information Technology, 7.1%		
Microsoft Corporation	7,821	213,737
Hewlett-Packard	2,924	107,266
CISCO Systems, Inc	4,270	98,212
IBM	940	77,032
Google, Inc.	191	76,635
Intel Corporation	3,537	72,765
Motorola, Inc	2,404	60,094
Other	-	1,385,479
Total Information Technology (Cost, $1,967,320)		2,091,220
Consumer Discretionary, 5.7%		
Home Depot, Inc	1,707	61,907
Other	-	1,610,017
Total Consumer Discretionary (Cost, $1,627,365)		1,671,924

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2006
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)	Value
Health Care, 5.7%		
Pfizer, Inc	5,751	$ 163,093
Johnson & Johnson	1,792	116,363
Merck & Co., Inc	1,661	69,584
Amgen, Inc	952	68,064
Abbott Labs	1,220	59,223
United Health Group, Inc	1,112	54,688
Other	-	1,127,461
Total Health Care (Cost, $1,485,811)		1,658,476
Industrials, 5.3%		
General Electric Company	7,025	247,972
Tyco International, Ltd	2,493	69,784
Lockheed Martin Corporation	687	59,099
Other	-	1,172,077
Total Industrials (Cost, $1,396,114)		1,548,932
Energy, 3.8%		
Exxon Mobil Corporation	4,112	275,898
ConocoPhillips	1,764	104,993
Chevron Corporation	1,613	104,639
Other	-	622,057
Total Energy (Cost, $865,706)		1,107,587
Consumer Staples, 3.2%		
Procter & Gamble	1,855	114,973
Altria Group, Inc	1,451	111,065
Pepsico, Inc	1,189	77,593
Wal-Mart Stores, Inc	1,544	76,154
Coca-Cola Corporation	1,228	54,872
Other	-	500,252
Total Consumer Staples (Cost, $808,356)		934,909
Materials, 1.6% (Cost, $447,420)	-	474,905
Utilities, 1.6% (Cost, $395,999)	-	469,546

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2006
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)		Value
Telecommunications, 1.5%			
Verizon Communications	2,448	$	90,909
AT&T Inc.	2,712		88,304
Other	-		263,780
Total Telecommunications (Cost, $378,658)			442,993
Common Stock, 46.2% (Cost, $12,145,590)			13,575,191
Other Equity Securities (a), 0.3% (Cost, $77,078)	-		81,847
Total US Equity, 46.5% (Cost, $12,222,668)		$	13,657,038
Non US Equity			
Unit Trusts			
BGI MSCI World ex-US Index Fund, 17.4% (Cost, $2,219,774)	379,565	$	5,105,467
Common Stocks			
Japan, 1.3% (Cost, $342,856)	-		368,825
United Kingdom, 1.2% (Cost, $318,806)	-		356,652
Other Common Stock (Cost, $780,636)			898,551
Total Common Stock, 5.5% (Cost, $1,442,298)			1,624,028
Other Non US Equity Securities, 0.1% (Cost, $15,850)	-		16,792
Total Non US Equity, 23.0% (Cost, $3,677,922)		$	6,746,287
Private Equity			
Private Equity Investments, 0.7% (Cost, $202,322)	-	$	197,625
Total Equity, 70.1% (Cost, $16,102,912)		$	20,600,950

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2006
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)	Value
Unit Trusts, 11.2%		
BGI US Debt Index Fund	65,308	$ 2,830,690
Bridgewater I STIF Fund	33,513	361,258
Bridgewater Corporate Bond Fund	6,803	91,937
Total Unit Trust Funds (Cost, $2,957,998)		3,283,885
Government Mortgage Backed Securities, 6.8%		
FNMA 30 Year Single Family Mortgage, 5%, 10/15/33	292,289	280,872
FNMA 30 Year Single Family Mortgage, 5.5%, 12/31/40	141,753	139,627
FNMA 15 Year Single Family Mortgage, 5%, 10/15/18	93,834	92,192
FNMA 30 Year Pass Throughs, 6%, TBA	75,700	76,031
FNMA 30 Year Pass Throughs, 6.5%, TBA	63,220	64,366
Other Government Mortgage Backed Securities	-	1,352,574
Total Government Mortgage Backed Securities (Cost, $2,012,166)		2,005,662
Government Bonds and Notes, 2.5%		
US 30 Year Treasury Bonds, 6.25%, 8/15/23	46,310	53,767
Other Government Bonds and Notes	-	666,492
Total Government Bonds and Notes (Cost, $717,328)		720,259
Corporate Bonds, 3.4% (Cost, $1,012,221)	-	1,008,409
Non-Government Backed C.M.O.s, 1.7% (Cost, $491,986)	-	491,461
Asset Backed Securities, 1.4% (Cost, $407,202)	-	406,005
Commercial Mortgage Backed Securities, 1.3% (Cost, $399,278)	-	388,659
Government Agencies, 1.1% (Cost, $311,731)	-	310,623
Commercial Paper, 0.3% (Cost, $91,830)	-	92,204
Short Term Investment Funds, 0.3% (Cost, $74,969)		
Fidelity Ultra Short Duration Fund	748	75,080

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2006
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)	Value
Index-Linked Government Bonds, 0.2% (Cost, $63,226)	-	$ 64,102
Short Term and Notes, 0.0% (Cost $14,328)	-	14,362
Other Fixed Income Securities (b), 0.1% (Cost, $42,812)	-	42,912
Total Fixed Income, 30.3% (Cost, $8,597,075)		**8,903,623**
Securities Lending Collateral		
Core USA Fund (c)	-	3,614,252
Total Securities Lending Collateral, 12.3% (Cost, $3,614,252)		**3,614,252**
Total Investments in Securities, 112.8% (Cost, $28,314,237)		**33,118,825**
Net liabilities (Net assets less investments in securities), -12.8%		**(3,746,073)**
Net Assets, 100%		**$ 29,372,752**

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

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

(a) Includes Purchased Options, Unit Trusts, Corporate Convertible Bonds and Preferred Stock.

(b) Includes Index-Linked Corporate Bonds, Municipal/Provincial Bonds, and Certificates of Deposit.

(c) Represents cash collateral pledged by the counterparties for investment securities loaned by the Trust.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
($ In thousands)

INCOME:		
Dividends	$	267,235
Interest		254,417
Income from investment securities loaned, net		11,121
Total Income		532,773
EXPENSES:		
Investment management fees		35,590
Compensation		2,723
Professional fees		2,566
Trustee fees and expenses		162
Custodial fees		100
Other expenses		2,262
Total Expenses		43,403
NET INVESTMENT INCOME		489,370
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:		
Net realized gain (loss) from:		
Investments		1,458,289
Foreign currency		5,103
		1,463,392
Net increase (decrease) in unrealized gain (loss) on:		
Investments		700,244
Translation of assets and liabilities in foreign currencies		254
		700,498
Net realized and unrealized gain from investments and foreign currency		2,163,890
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$	2,653,260

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
($ In thousands)

INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Net investment income	$	489,370
Net realized gain/(loss) from investments and foreign currency		1,463,392
Net change in unrealized gain (loss) on investments and translation of assets and liabilities in foreign currencies		700,498
Net increase in net assets resulting from operations		2,653,260
Assets transferred to the Treasury		(947,000)
NET ASSETS:		
Beginning of Year		27,666,492
End of Year	$	29,372,752

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
($ In thousands)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net increase in net assets resulting from operations	$	2,653,260
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Purchase of investments		(50,999,059)
Proceeds from disposition of investments		51,226,765
Proceeds from principal paydown of mortgage securities		504,407
Change in variation margin receivable		(41)
Change in receivable for investments sold		(217,791)
Change in collateral for investment securities loaned		9,922
Change in dividends and interest receivable		(8,152)
Change in other assets		(1,921)
Change in options written		2,892
Change in variation margin payable		33
Change in obligation to return securities lending collateral		(9,922)
Change in payable for investments purchased		69,163
Change in accrued expenses and other liabilities		2,547
Net change in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies		(700,498)
Net realized (gain)/loss from investments and foreign currency		(1,463,392)
Net cash provided by/(used in) operating activities		1,068,213
Assets transferred to the Treasury		(947,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS		121,213
CASH AND CASH EQUIVALENTS, Beginning balance		417,784
CASH AND CASH EQUIVALENTS, Ending balance	$	538,997

Note: The Trust received stock dividends of approximately $1.9 million during the year ended September 30, 2006 representing non-cash transactions.

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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.

At the outset of its investment activities, the Trust's assets were invested in Barclays Global Investors ("BGI") index funds. Over the past four years, the Trust diversified its investment portfolio by adding active investment management strategies. As of September 30, 2006, BGI continues to manage 27.0% of the Trust's net assets in commingled index funds. Each of the index funds targets a different market index. The BGI US Debt Index Fund targets the Lehman Brothers Aggregate Index, and the BGI MSCI World ex-US Index Fund targets the MSCI World ex-US Index.

Except for limited partnership agreements, which are held by the Trust, all of the Trust's assets in the portfolio are held by custodians as appointed by the Trust.

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").

Basis of Accounting—The Trust applies the accrual method of accounting when preparing its financial statements. The financial statements and related footnotes are prepared in accordance with GAAP for investment companies.

Valuation of Investments—Commingled funds (representing 29.2% of the Trust's net assets) are valued daily by the custodian of that fund. The funds are recorded at that value by the Trust.

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.

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 on July 19, 2002. 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 general, the partnership agreements require assets to be valued by applying a pricing model, which generally requires the assets of the partnership to be recorded at cost, which approximates value, until such time a financial event(s) results in a material change in the value of the assets. 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.

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. The primary risk associated with swap agreements is that a counterparty could default on its obligation to pay net amounts due to the Trust.

Security Transactions, Related 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.

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, 2006, were as follows:

	Written Options	
	Number of Contracts	Premiums ($000's)
Options outstanding 9/30/05	425	$ 235
Options written	185,103,417	3,040
Options exercised/expired	(11,303,444)	(1,395)
Options outstanding 9/30/06	173,800,398	$ 1,880

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 does not invest in financial futures contracts for the sole purpose of adding leverage to its portfolio. 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. As of September 30, 2006, securities in the amount of $11.3 million were pledged as collateral for the options and futures contracts entered by the Trust. These securities are restricted and can not be traded or re-pledged while posted as collateral.

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.

As of September 30, 2006, the Trust recorded gross unrealized appreciation and gross unrealized depreciation of $3.8 million and $7.6 million, respectively, on its forward currency exchange contracts.

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.

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 primary risk associated with swap agreements is that a counterparty could default on its obligation to pay net amounts due to the Trust.

As of September 30, 2006, the Trust had unrealized appreciation of $4.7 million and unrealized depreciation of $19.7 million related to swap agreements. The Trust recognized a $5.3 million net realized loss on swap transactions during the year ended September 30, 2006.

Securities Lending—The Trust may participate in securities lending. 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.

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 collateral pledged as of September 30, 2006, were as follows:

($ in thousands) Securities Loaned	Value of Securities Loaned	Cash Collateral Pledged	Value of Securities Loaned	Securities Collateral Pledged
Fixed Income--Non-US Gov't Bonds	$ 3,201	$ 3,373	$ -	$ -
Fixed Income--Non-US Corp Bonds	1,941	2,036	-	-
Fixed Income--US Gov't Bonds	628,674	643,519	36,721	37,632
Fixed Income--US Agencies	214,888	219,595	53,705	55,031
Fixed Income--US Corp Bonds	142,557	146,335	23,113	23,640
Equity--US Common Stock	2,252,089	2,313,528	63,773	65,396
Equity--Non-US Common Stock	271,335	285,866	6,427	6,732
	$ 3,514,685	$ 3,614,252	$ 183,739	$ 188,431

During the year ended September 30, 2006, the Trust earned $11.1 million from securities lending.

Common Stock—The Trust invests in common stock across all corporate sectors. Over 5% of the Trust's net assets were invested in each of the following corporate sectors: financial services, information technology, consumer discretionary, health care, and industrials. As of September 30, 2006, common stock investments totaled $15.2 billion and represented 51.7% of the Trust's net assets.

Government Mortgage Backed Securities—The Trust invests in government mortgage backed securities. Government mortgage backed securities ("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). As of September 30, 2006, the Trust held $2.0 billion in government MBS.

The Trust's portfolio includes government 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. As of September 30, 2006, the Trust held a net investment in TBAs of $805.9 million, consisting of purchase agreements of $10.6 million and sale agreements of $816.5 million.

Government Bonds and Notes—The Trust invests in government bonds and notes. These include bonds and notes issued by the US government, as well as foreign governments. As of September 30, 2006, the Trust held $720.3 million in government bonds and notes.

Corporate Bonds—The Trust's investment in corporate bonds covers all corporate sectors. As of September 30, 2006, the Trust held $1.0 billion in corporate bonds, which represented 3.4% of the Trust's net assets.

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.

Cash and Cash Equivalents—Cash and Cash Equivalents includes cash and foreign currency 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, 2006, the Trust held $539.0 million in Cash and Cash Equivalents. In addition, the Trust held $0.4 million of restricted cash, representing initial margin on futures contracts.

Investment Management Fees—Management fees on investment accounts are generally paid on a quarterly basis and are calculated as a percentage of the weighted-average value of assets under management. The investment management fees for a portion of the assets are calculated and based upon a flat fee. For the fiscal year ended September 30, 2006, investment management fees were $35.6 million.

Use of Estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the 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, $3.6 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2006, $947 million 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 $2.0 million in legal fees during the fiscal year ended September 30, 2006. 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.

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 3% of compensation deferred and 50% on the next 2% 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, 2006, the Trust made contributions of $105,764 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. Payment obligations relating to the lease for each of the next five years and thereafter are as follows:

FY Ending September 30	**Amount**
2007	$ 275,650
2008	283,090
2009	295,830
2010	302,480
2011	309,274
Thereafter	584,676
Total	$2,051,000

Private Equity Investments—During the fiscal year ended September 30, 2006, the Trust contributed $171.1 million to Private Equity Investments in the leveraged buyout, venture capital, and special situation sectors. As of September 30, 2006, the Trust had commitments to invest up to an additional $646.4 million in Private Equity Investments.

6. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2006.

	October 1, 2005-September 30, 2006
Financial Ratios (1):	
Expense to average net assets	0.15%
Net investment income to average net assets	1.72%
Total Return (2):	
Total Return	9.82%

(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.

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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 AND SENIOR ADMINISTRATIVE OFFICER CERTIFICATION LETTERS

H. RAILROAD RETIREMENT BOARD CERTIFICATION LETTER TO TREASURY AND TREASURY FEDERAL REGISTER NOTICE ON 2007 TAX RATE

I. NOTICE TO THE RAILROAD RETIREMENT BOARD AND ACCEPTANCE OF NEW TRUSTEE

J. BIOGRAPHICAL INFORMATION ON TRUSTEES AND STAFF