

# NRRIT

## National Railroad Retirement Investment Trust

July 2003

### QUARTERLY UPDATE FOR THE PERIOD ENDING JUNE 30, 2003

In October 2002, the National Railroad Retirement Investment Trust (“NRRIT”) issued its first Quarterly Update to provide current information on NRRIT operations and investment activities to government officials and to the railroad industry. Because NRRIT’s first Annual Management Report to the Congress dated January 31, 2003 included information for the first four months of the current fiscal year, NRRIT did not issue an Update for the last calendar quarter of 2002, or the first calendar quarter of 2003. This Update reports on NRRIT’s activities for the six month period ending June 30, 2003. A copy of the Annual Management Report and each Quarterly Update is available on the website of the Railroad Retirement Board ([www.rrb.gov](http://www.rrb.gov)).

#### Trustee Update

In February, NRRIT announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2003. Railroad management appointed Mr. Paul R. Goodwin, the then Vice Chairman and Chief Financial Officer of CSX Corporation, to a three-year term that expires on January 31, 2006. Railway labor unions reappointed Mr. George J. Francisco, Jr., the President of the National Conference of Firemen & Oilers, SEIU, to a three-year term that expires on January 31, 2006. In addition, the Trustees have selected James A. Hixon, Senior Vice President for Administration at Norfolk Southern Corporation, as the Chair of the Board of Trustees for the period February 1, 2003-January 31, 2004.

Mr. Goodwin and Mr. Francisco join the following five members of the Board: For terms expiring January 31, 2005: Joel Parker, International Vice President, Transportation Communications International Union; Thomas N. Hund, Executive Vice President and Chief Financial Officer, Burlington Northern Santa Fe Corporation; and John W. MacMurray, the Independent Trustee.

For terms expiring January 31, 2004: Mr. Hixon; and Dan E. Johnson, General Secretary-Treasurer, United Transportation Union.

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#### **TRUSTEES:**

<b>Chair</b>	James A. Hixon Senior Vice President- Administration Norfolk Southern Corporation	George J. Francisco, Jr. President SEIU, National Conference of Firemen and Oilers	Thomas N. Hund Executive Vice President & CFO Burlington Northern Santa Fe Corporation	John W. MacMurray Independent Trustee
	Paul R. Goodwin Former Vice Chairman & Chief Financial Officer CSX	Dan E. Johnson General Secretary-Treasurer United Transportation Union	Joel Parker International Vice President Transportation Communications	

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### Investment Update

As of June 30, 2003, NRRIT had received a total of \$19.3 billion from the Railroad Retirement Board for investment (the “NRRIT investment funds”). These monies were transferred to it periodically over the course of approximately 6 months beginning in September 2002. Approximately \$2.6 billion of Railroad Retirement assets remain in Treasury accounts as of June 30, 2003. With the exception of certain amounts determined by the Railroad Retirement Board to be retained as cash flow reserves in the Treasury accounts on an ongoing basis, the balance of these assets is expected to be transferred to NRRIT for investment.

The NRRIT investment funds are managed through its custody account at Northern Trust Company. These funds have been invested in various indexed accounts by NRRIT’s initial investment manager, Barclays Global Investors. These accounts were selected by NRRIT to replicate the investment performance of the major asset classes designated in its Investment Guidelines. As NRRIT builds its internal investment staff, investment activity will expand beyond indexed accounts to include active account management using a variety of investment managers in all its target asset classes.

### Investment Performance

April 1, 2003 - June 30, 2003. NRRIT has experienced strong positive performance for the most recent quarter. Through its indexed accounts, NRRIT has benefited from increasing investor confidence and the resulting rise in equity market prices. Approximately 60% of its current market exposure is allocated to equities, including the Wilshire 5000 Index and the MSCI World Ex-US Index which rose 16.5% and 19.5% respectively in the quarter. The balance of NRRIT’s current investment portfolio is invested in fixed income securities which also have performed positively, but to a lesser degree than equities. During this quarter, there were no inflows of assets from the Treasury accounts and no outflows of assets back to the Treasury accounts to fund benefit payments. Overall, the market value of NRRIT investments rose 12.7% for the quarter and 7.8% for the six-month period ending June 30, 2003, in line with the target investment indices. The positive overall performance results of the second quarter helped to mitigate some of the negative market volatility experienced in the first six months of NRRIT’s current fiscal year. It should be remembered that short term performance can be volatile on both the up and down side and that longer term performance returns are a better measure of true investment results.

Inception<sup>1</sup> (September 13, 2002) - June 30, 2003. As of June 30, 2003, the total market value of the NRRIT investment funds was \$21.1 billion. This exceeds the cost basis of those funds (total amount of assets transferred from Treasury net of all expenses) by 9.8

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<sup>1</sup> The initial investment of funds (\$1.5 billion) occurred on September 13, 2002.

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percent. The combined total of the NRRIT investment funds and assets held in Treasury accounts as of June 30, 2003 is approximately \$23.8 billion.

### Investment Staff

During the quarter, E. Shepard (Shepi) Farrar joined NRRIT as Director of U.S. Equity. Ms. Farrar, who has an MBA degree and CFA certification, comes to NRRIT with significant investment management experience. Most recently, she served as a Senior Investment Advisor for the United Mineworkers of America Health and Retirement Funds. She is the fourth professional hired by NRRIT. Director of investment positions for NRRIT's other asset classes are expected to be filled during the next fiscal quarter.

### NRRIT Office

NRRIT has been located in temporary office space since its inception. In early July, NRRIT moved to its own office space located at 1250 Eye Street, NW, Suite 500, Washington, DC 20005. NRRIT's telephone number is 202-589-0100. NRRIT has entered into a 10-year lease for 7,000 square feet at this location. The space will meet the staffing and investment operation needs of NRRIT, as well as accommodate meetings with investment managers and Trustees.