

# NRRIT

## National Railroad Retirement Investment Trust

JANUARY 2009

### QUARTERLY UPDATE FOR THE PERIOD ENDING DECEMBER 31, 2008

The National Railroad Retirement Investment Trust (the "Trust") issues a Quarterly Update to provide current information on the Trust's operations and activities relating to its investment operations. This update reports on the Trust's activities for the quarter ending December 31, 2008. Copies of the Trust's Annual Management Report and each Quarterly Update are available on the website of the Railroad Retirement Board ("RRB"), <http://www.rrb.gov>.

As of December 31, 2008, the Trust had received a total of \$21.3 billion from the Treasury for investment. Most of this amount was transferred to the Trust periodically during the first six months of its 2003 fiscal year beginning in October 2002. No transfers were received in the fiscal quarter just ended. In the quarter ended December 31, 2008, the Trust continued to transfer monies back to the Treasury to help fund benefit payments and administrative expenses of the Railroad Retirement Account ("RRA"). Transfers to the Treasury during the quarter amounted to \$291 million. Since the Trust's inception, it has transferred a total of \$6.6 billion to the Treasury.

#### Investment Objectives

The Trust's primary investment objectives are to establish a portfolio that will achieve a long-term rate-of-return on assets sufficient to enhance the financial strength of the railroad retirement system and to do so in a diversified manner that minimizes the risk of large losses. Achievement of these objectives will facilitate the payment of benefits by the Railroad Retirement Board and the United States Treasury. To further these objectives the Trust has established an asset allocation policy and will seek to add value by obtaining returns that are in the aggregate greater than the returns of its strategic policy benchmark for this asset allocation. In addition, the Trust will take such other steps as may be appropriate to manage investment risk and volatility effectively.

In 2002, the Trust conducted its first comprehensive asset allocation study for the purpose of analyzing alternative asset allocation strategies for the Trust. The study analyzed the long-term expected return, risk, and return correlation of various asset classes, as well as the expected return and risk of various portfolios of these asset classes. In 2004, 2006, and 2008, the Trust took steps to review and update its asset allocation. As a result of these reviews, the Trustees have refined periodically the Trust's asset allocation policy and strategic policy benchmark.

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<b>TRUSTEES:</b>			
<b>Chair</b>	Walter A. Barrows International Secretary-Treasurer Brotherhood of Railroad Signalmen	George J. Francisco, Jr. President National Conference of Firemen and Oilers - SEIU	Linda Hurt Vice President Investor Relations Burlington Northern Santa Fe Corporation
		Bernie Gutschewski Vice President – Tax Union Pacific Corporation	John W. MacMurray Independent Trustee
			Joel Parker Special Assistant to the President and International Vice President Transportation Communications International Union (TCU/IAM)
			William Sparrow CSX Corporation (Retired)

The Trust's current asset allocation policy and strategic policy benchmark are contained in its Investment Guidelines which are included as Appendix B of the Annual Management Report for Fiscal Year 2008.

The investment performance for the Trust and the change in market value of Trust-managed and RRB-held assets for the most recent quarter are summarized below.

<b>Investment Performance for the Quarter ended December 31, 2008</b>	
<b>Trust-Managed Assets:</b>	-17.15%
<b>Strategic Policy Benchmark:</b>	-15.66%

<b>Market Value of Assets (Asset values are in billions of dollars)</b>	
<b>Trust-managed assets</b>	
As of December 31, 2008	\$20.7
As of September 30, 2008	\$25.3
Change for quarter ended December 31, 2008	\$-4.6
<b>Trust-managed assets and RRB assets held in reserve</b>	
As of December 31, 2008	\$21.9
As of September 30, 2008	\$26.8
Change for quarter ended December 31, 2008	\$-4.9
As of February 1, 2002 (Trust inception)	\$20.7
Change since inception (net of transfers to Treasury)	\$1.2
Transfers back to the Treasury	\$6.6
Total change in assets since inception	\$7.8

### **Recent Financial Market Volatility**

The Trust originally deployed assets received from Treasury into a diversified and balanced portfolio of US and non-US equity and US fixed income securities. Over time, the Trust has furthered that diversification by allocating a percentage of the portfolio to non-US fixed income securities, private equity, real estate, 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 such as have been experienced recently. As part of this diversification process, the Trust holds tens of thousands of different securities selected by its investment managers for its portfolio. During the past fiscal year and the last fiscal quarter in particular, the Trust has experienced a decline in market values. The Trust's returns reflect the decline of the financial markets as a whole over the past twelve months. During this period, the Trust has not had a disproportionate overweighting to the financial sector or to the types of mortgage securities that have created such volatile and uncertain markets. The Trust's Board and its investment staff continue to monitor the activities of the Trust's investment managers carefully in this most complex time. The investment staff is in daily contact with the Trust's investment managers and regularly assesses the situation.

The market volatility of the prior quarter continued into the last quarter of the calendar year, with steep market declines occurring particularly in the first weeks of October. As had been the case in

September, these market declines occurred across a broad array of asset classes. November was somewhat less turbulent, but again a period of decline. Market conditions appeared to stabilize later in the quarter, with December producing the first positive market returns since the month of May 2008.

In this difficult investment environment, the Trust has taken prudent steps to ensure sufficient liquidity to meet all Trust needs. Trustees and staff have worked closely through the fiscal year on these complex matters and continue to examine and implement strategies for weathering these storms. While it is hard to predict how long the current market volatility will continue, the Board of Trustees will continue to manage the assets of the Trust as a patient, long-term investor, recognizing its responsibilities to the railroad retirement system, its workers and its retirees. As a long-term investor, the Trust expects to benefit from the long-term recovery of financial markets from current very depressed levels.

### **Annual Report**

The Trust's Annual Management Report for Fiscal Year 2007, contains additional information regarding the Trust's investment activities as well as other financial information. This report can be found on the Railroad Retirement Board's website at <http://www.rrb.gov>. The Trust's Annual Management Report for Fiscal Year 2008 will be issued in February 2009.