The information on this page was provided to the RRB by the National Railroad Retirement Investment Trust

NRRIT

National Railroad Retirement Investment Trust

Annual Management Report

for Fiscal Year 2005

NRRIT

National Railroad Retirement Investment Trust

Annual Management Report for Fiscal Year 2005
Required by Public Law 107-90,
The Railroad Retirement and Survivors' Improvement Act of 2001

THIS PAGE

INTENTIONALLY

LEFT BLANK

ANNUAL MANAGEMENT REPORT OF THE NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

THIS PAGE

INTENTIONALLY

LEFT BLANK

1) Introductory Statement

Fiscal year 2005 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 and took additional steps away from a fully indexed investment portfolio. In addition, the Trust continued making periodic transfers to the Railroad Retirement Account of the US Treasury ("Treasury") to pay railroad retirement (tier 2) benefits, transferring $809 million in fiscal year 2005.

The net asset value of Trust-managed assets increased from $25.0 billion on October 1, 2004 to $27.7 billion on September 30, 2005. This amount is net of $809 million that the Trust transferred back to the Treasury for benefit payments during the fiscal year. The Trust achieved a 14.0% rate of return on the investment of its assets for the year, comparing favorably with the composite benchmark for Trust-managed assets which returned 13.0% 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 $26.4 billion. As of September 30, 2005, total railroad retirement system assets equaled $29.0 billion.

During the fiscal year, the Trust focused on the implementation of aspects 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 certain value and large cap growth managers to invest a portion of the US equity portfolio, and retention of core and core plus bond managers to invest a portion of the fixed income portfolio. In addition, the Trust updated the non-US equity portion of its Plan and took the first steps to implement that portion of the Plan through the retention of two non-US equity enhanced index managers. Finally, the Trust made a number of additional commitments to private equity partnerships during the fiscal year.

The Trust also implemented a securities lending program in conjunction with its custodian, the Northern Trust Company, to enhance its investment revenue streams. In addition, the Trust completed a review of its current asset allocation strategy in light of economic conditions and changing long-term asset class return assumptions. The Trust agreed to add new asset classes to its Plan, providing for investment in commodities, real estate and hedge funds. This expansion of the Plan will be implemented in stages during the next fiscal year and beyond.

To support these developments, the Trust continued its recruitment of highly qualified investment professionals. The investment staff was expanded during 2005 with two additional Senior Investment Advisors.

The Board of Trustees met eight times during the course of the year (including one two-day meeting in most calendar quarters) to consider the various investment, management and professional staffing issues that are discussed in this fourth 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 2005, the Trust announced the appointment of three Trustees and a new Chair for the period beginning February 1, 2005. Railroad management appointed James A. Hixon, Executive Vice President, Law and Corporate Relations, Norfolk Southern Corporation, to a three-year term that expires on January 31, 2008. Railway labor unions appointed Joel Parker, Special Assistant to the President and International Vice President of the Transportation Communications International Union (TCU)/IAM to a new three-year term that expires on January 31, 2008. The six Trustees then selected John W. MacMurray, the Independent Trustee, to a new three-year term that expires on January 31, 2008. In addition, the Trustees selected Bernie Gutschewski, Vice President, Taxes, Union Pacific Corporation, as the Chair of the Board of Trustees for the period February 1, 2005-January 31, 2006.

Mr. Hixon, Mr. Parker, and Mr. MacMurray joined the following four members of the Board: *For terms expiring on January 31, 2006:* Paul R. Goodwin, former Vice Chairman and Chief Financial Officer of CSX Corporation, and George J. Francisco, Jr., President, National Conference of Firemen & Oilers, SEIU. *For terms expiring on January 31, 2007:* Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railway Signalmen, and Bernie Gutschewski, Vice President, Taxes, Union Pacific Corporation.

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 June 2005, the Trust hosted a meeting with representatives of the RRB, the Treasury and OMB 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. Consideration of these issues among the Trust, its custodian, and the various government entities is ongoing. A copy of the MOU is included in Appendix C.

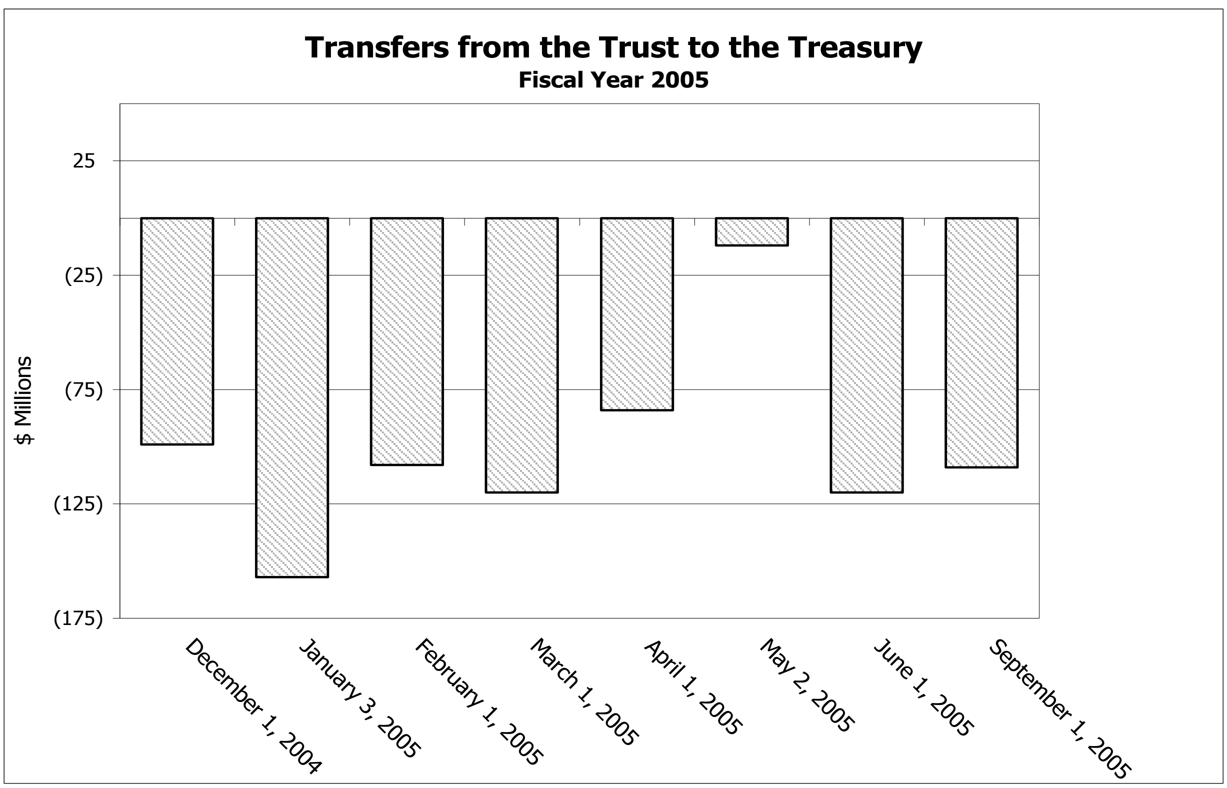
During the fiscal year, the Trustees, the Chief Investment Officer and Trust counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel to review the investment and administrative activities of the Trust. The senior staff of the two organizations and 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. 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 2005, the Trust also consulted with the RRB, Treasury and OMB on its year-end audit and reporting processes to facilitate the transmittal of audited net asset data of the Trust to RRB for use in the year-end Financial Report of the United States. In addition, the Trust coordinated with the RRB on the best approaches to transmit, beginning in fiscal year 2006, audited net asset data to the RRB for use in the preparation of its annual Statement of Social Insurance.

c) Transfers to and from the Treasury

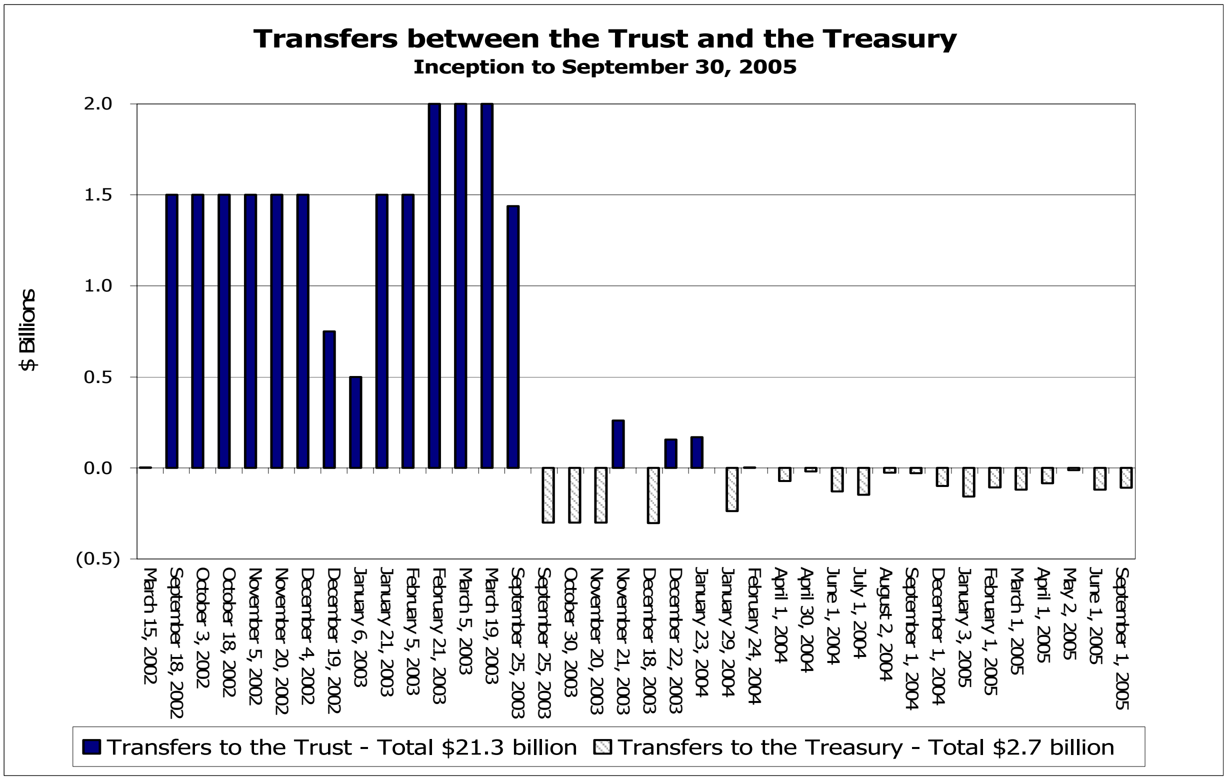
The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received $21.3 billion of railroad retirement system funds. The Trust received no transfers from the Treasury in fiscal year 2005. 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 2005, the Trust transferred a total of $809 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 2005.

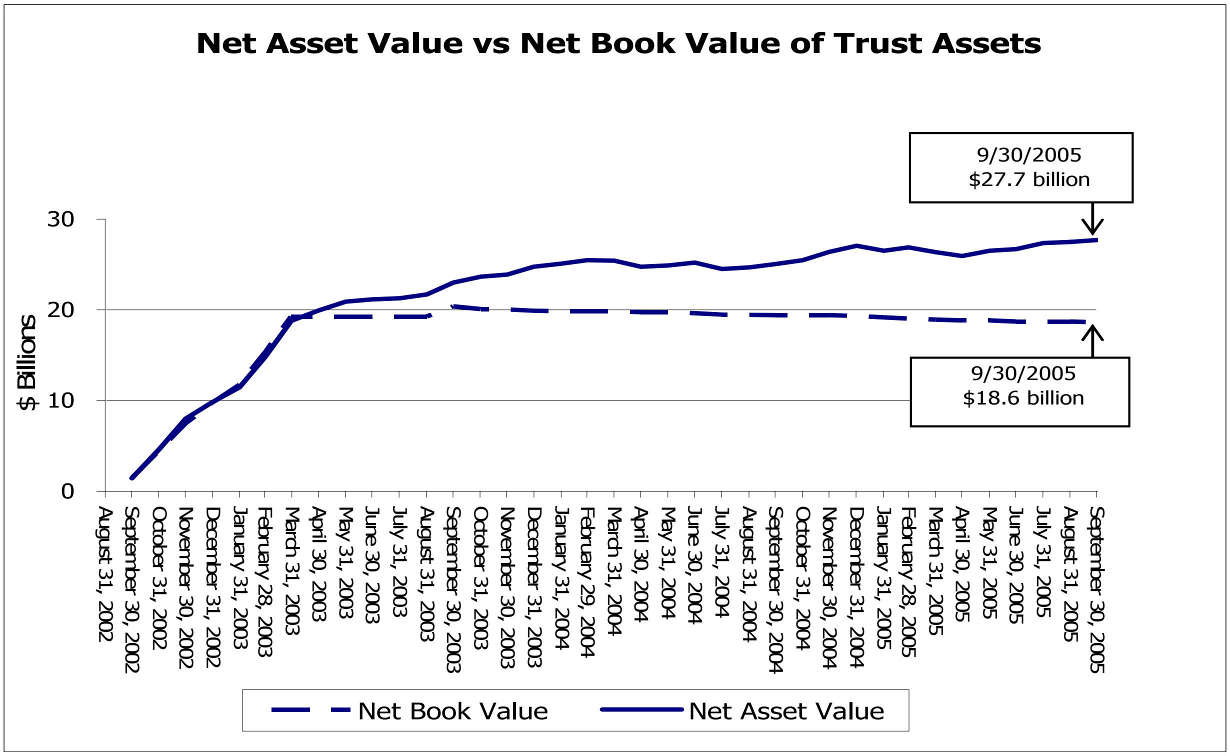


Summary of transfers: From its inception in February 2002 to September 30, 2005, the Trust received $21.3 billion from the Treasury and transferred $2.7 billion back to the

Treasury. The net book value of funds received from the Treasury since inception, therefore, is $18.6 billion. The following graph displays the cash transfers between the Trust and the Treasury since inception.



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, 2005, the net asset value of the Trust-managed assets totaled $27.7 billion, representing an increase of $9.1 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 month 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 2005 and certified the ratio to the Secretary of the Treasury on October 27, 2005. The Secretary determined the AABR for fiscal year 2005 and on November 17, 2005 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2006. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The account benefits ratio increased from 6.98 for fiscal year 2004 to 7.49 for fiscal year 2005. The ten-year average account benefits ratio increased from 6.1 for fiscal year 2004 to 6.4 for fiscal year 2005.

e) Staff Update

The Trust's internal staff continued to grow in fiscal year 2005. Shafer Smith and Clayton Viehweg joined the Trust as Senior Investment Advisors in November 2004 and February 2005 respectively. As Senior Investment Advisors, Mr. Smith and Mr. Viehweg are working with the non-US equity and fixed income asset classes respectively, assisting with the implementation and management of investments in these asset classes. In January 2005, Maureen McCarthy joined the Trust as Administrative Advisor and is assisting with the administrative activities of the Trust. 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 year 2004 and continuing through fiscal year 2005, the Trust began the process of moving its portfolio away from indexation and into active management. (See Annual Management Reports for Fiscal Years 2002, 2003 and 2004.) Section 3(a) discusses progress during fiscal year 2005 towards implementation of the Plan adopted by the Trustees; Section 3(b) describes the asset allocation review undertaken by the Trust during fiscal year 2004 and fiscal year 2005; and Section 3(c) 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 private equity, 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 2005, the non-US and private equity portions of the Plan were updated to reflect the Trust's evolving investment policy in those areas. Sections of the plan will be updated as appropriate, and new sections will be added as needed to address new investment initiatives such as those approved as a result of the fiscal year 2004 asset allocation policy review (see below, Section 3(b)). Also during fiscal year 2005, staff provided the Trustees with the first US equity asset class review examining the outlook for investments in that asset class and the Trust's implementation progress to date. Similar reviews for other asset classes will be implemented in fiscal year 2006.

i) US equity

In US equity, the Trust's largest asset class with a target allocation of 40% 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 2005 focused primarily on active large-capitalization ("large-cap") strategies. This section will review US equity strategies starting with index strategies, followed by progressively more active strategies.

Indexation: During the first half of fiscal year 2005, the Trust moved its indexed US equity assets from commingled fund accounts to separate account management with two different investment managers, in order to enhance net investment performance.

Enhanced indexation – all-cap: During fiscal year 2004, the Trustees approved the hiring of five enhanced index managers in large-cap and all-capitalization strategies. Enhanced index managers take only small, carefully-calculated deviations from benchmark portfolios, aiming to add modest performance over the index without incurring significant risk or tracking error relative to the benchmark index. Quantitative techniques are often used both in stock selection and in portfolio construction and risk control. During fiscal year 2005, the Trustees approved the hiring of one additional manager in the all-cap enhanced indexing area.

Active management – large-cap growth: During the second half of fiscal year 2005, the Trustees approved the hiring of four large-cap growth managers. These are the more traditional active managers who 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. Risk in the form of volatility and tracking error relative to the benchmark index is higher than with enhanced indexation but still carefully controlled; expected return over the index is also higher than with enhanced indexation.

Focused management – large-cap value and core, and mid-cap core: the Trustees approved the hiring of six focused managers during fiscal year 2005. The term "focused" refers to managers who generally manage more concentrated portfolios than do traditional active managers (i.e., portfolios holding fewer individual securities) and who construct those portfolios on a bottom-up basis, not attempting to build portfolios that resemble a benchmark index. Two of these managers were in the large-cap value area, two were in large-cap core, and two were in mid-cap core.

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 2005, the Trust's non-US equity exposure was effected through investment in the MSCI World ex-US index. The Trust developed a full Plan for non-US equity, which was approved by the Trustees during fiscal year 2005. Implementation of that plan began with the retention of two enhanced index managers which were funded after the end of the fiscal year.

iii) Fixed income

Fixed income is the Trust's second-largest asset class 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. Implementation during fiscal year 2005 focused on core and core-plus strategies.

Core strategies: During fiscal year 2005, the Trustees approved the hiring of two core bond managers. Core bond managers construct portfolios in a "top-down" fashion, meaning that they are organized on the basis of an over-arching economic forecast, and they aim to add modest performance over the index without incurring significant risk or tracking error.

Core-plus strategies: During fiscal year 2005, the Trustees approved the hiring of three core-plus bond managers. In a manner similar to core bond managers, core-plus managers construct portfolios in a "top-down" fashion based on their broad economic outlook, but they are also able to invest in bonds which are not included in the benchmark Lehman Brothers Aggregate Bond index, typically adding small amounts of bonds from sectors such as high-yield, non-dollar, and emerging markets. Tracking error versus the index is typically higher than with core managers, but the added diversification from the "plus" sectors should be reflected in higher risk-adjusted returns.

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 2005, the Trustees approved investment in nine private equity limited partnerships. These partnerships represented both the 2004 and the 2005 vintage years. They covered the spectrum from venture capital to corporate finance, plus special situations, and will provide the Trust with exposure to a range of industries including technology, life sciences, media, communications, manufacturing and distribution.

v) 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 2005 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 and reported to the Board of Trustees regarding each manager's proxy voting record with respect to Trust securities.

b) Asset Allocation Policy Review

The goal of the Trust's asset allocation policy is to achieve the maximum total return possible within prudent levels of risk and liquidity, while maintaining sufficient diversification to protect against large losses. It is designed to perform well in a variety of economic scenarios and to use internal and external resources efficiently so as to minimize the costs of implementation. During fiscal year 2004, the Trust performed a multi-phase asset allocation study. The study's goal was to re-examine assumptions about return and risk in different asset classes in order to determine whether the Trust's asset allocation policy should be revised to improve potential returns and portfolio diversification. Broad research on asset classes generated return hypotheses which were analyzed and tested using the Wilshire Compass optimization software provided by Wilshire Associates, an independent investment consulting advisory firm.

Prudent investment practice is to review asset allocation policies regularly, typically about every three years. The Trust's first asset allocation policy was developed by Watson Wyatt in 2002. It provided a basis for the Trust's initial investments, with the assumption that the asset allocation framework would be refined and updated in the future as the Trust's investment implementation proceeded.

The policy review process included intensive examinations of asset classes which might be considered by the Trust in terms of investment, liability issues, the impact of various economic scenarios, and the potential for investment returns in each individual asset class over both the near term and the longer term. The review process was completed early in fiscal year 2005. It resulted in the approval of allocations to three new asset classes: commodities, hedge funds and real estate. Investment allocations to these new asset classes will be implemented over time as investment plans and guidelines for each are developed and approved.

c) Investment Performance

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 4.5% of the total, or \$1.3 billion out of \$29.0 billion as of September 30, 2005, 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. 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 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.

Overall performance: For fiscal year 2005, the investment return on Trust-managed assets was 14.0%. This compared favorably with the Trust's composite benchmark, which returned 13.0%. The principal reasons for the Trust's higher performance were results achieved by the Trust's managers in US and non-US equity, and temporary differences in the Trust's allocations to asset classes compared with the benchmark.

US equity: The Trust's US equity portfolio returned 15.7% during fiscal year 2005, compared with a return of 14.7% on the Trust's US equity benchmark, the Dow Jones Wilshire 5000. Large-cap core and value managers hired during fiscal year 2004 and fiscal year 2005 contributed positively to the favorable performance of this asset class against its benchmark.

Non-US equity: The Trust's non-US equity portfolio, which was entirely indexed during the year, returned 27.1% during fiscal year 2005, compared with a return of 26.8% on the Trust's non-US equity benchmark, the MSCI World Ex-US index. (In non-US equities, index managers may be able to add value over the benchmark via securities lending and other techniques.)

Private equity: The Trust's private equity portfolio is in the early stages of commitment, and reported performance is therefore not meaningful. Invested funds totaled $52 million at September 30, 2005.

Fixed income: The Trust's fixed income portfolio returned 3.1% during fiscal year 2005, compared with a return of 2.8% on the Trust's fixed income benchmark, the Lehman Brothers Aggregate bond index. The enhanced bond index managers retained during fiscal year 2004 were principally responsible for the increment in performance over the benchmark.

Allocation exposure: During fiscal year 2005, in periods when the US and 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 benchmark, and therefore contributed positively to the Trust's overall portfolio performance compared with the benchmark.

Summary: The railroad retirement assets under the Trust's oversight outperformed their benchmarks during fiscal year 2005 by approximately 100 basis points, with an investment return of 14.0% compared with a benchmark return of 13.0%. At fiscal year-end, the net asset value of assets overseen by the Trust totaled $27.7 billion, and the total value of railroad retirement system assets, including those held at the Treasury, was $29.0 billion.

Continued diversification away from indexation in most major asset classes resulted in retaining 21 new managers during the fiscal year. At year end, 34% of the Trust investments were actively managed by more than 40 investment managers.

4) Audit Committee

The Audit Committee met quarterly during fiscal year 2005, with representatives of the Trust's independent auditor Deloitte & Touche participating in each of the Committee's meetings. The Audit Committee reviewed key aspects of the Trust's auditing, financial reporting, internal accounting and internal controls processes as the Trust continued to evolve into a more mature investment management institution. The Audit Committee supervised the audit procedures conducted by the Trust's independent auditor for fiscal year 2004 and the completion of the 2004 Annual Management Report by the Trust's professional staff and legal counsel. The Audit Committee also worked closely with the independent auditor in its development of the Fiscal Year 2004 Audit Report, and considered the Deloitte & Touche Audit Management Letter for that fiscal year. With respect to recommendations contained in the Audit Management Letter, the Audit Committee and the Trust's professional staff concurred with the recommendation to expand the Trust's accounting capacity, and engaged an outside accounting resource for the fiscal year 2005 audit. A new full-time accounting position was authorized and a search was initiated to fill the position. In addition, the Trust took steps to create a financial accounting standards manual, to further document the Trust custodian's pricing policy for all Trust investments, and to expand its general ledger system to accommodate its expanded and more diversified portfolio.

During fiscal year 2005, the Audit Committee also continued to evaluate, and implement where appropriate, recommendations made by the internal audit staff from Burlington Northern Santa Fe Corporation and Norfolk Southern Corporation as a result of its review of the Trust's financial procedures and internal controls conducted in fiscal year 2004.

In addition, the Audit Committee worked alongside the Trust's staff and independent auditor in matters related to financial reporting. Specifically, the Audit Committee analyzed and commented upon the appropriate format and content of the Trust's financial statements, and worked with the staff and the auditor to complete the financial statements for fiscal year 2004. The Committee examined in detail, in consultation with Deloitte & Touche, whether the Trust's financial statements for fiscal year 2005 and subsequent years should be displayed in the format required for investment companies, or in the format required for employee benefit plans. After extensive discussion and consideration of the issues involved with each alternative, the Audit Committee and Deloitte & Touche concluded that the Trust should adopt the investment company audit format (without amortization of bond premiums and discounts when such amounts are deemed to be immaterial). This decision was based on the conclusion that while the Trust does not fit precisely into either format, it appears to have more characteristics of an investment company than of an employee benefit plan, primarily because it does not have the obligation to calculate or pay benefits. Under this structure, with respect to the amortization question, the Trust would determine its materiality each fiscal year in consultation with its auditor.

Finally, during the fiscal year, the Audit Committee worked closely with the Trust's professional staff and the auditor to develop procedures to expedite the completion of the fiscal year 2005 audit (and those of subsequent years) so that the Trust could be in a position to provide an audited statement of its September 30, 2005 net assets to the RRB in time for the inclusion of this information in the annual Financial Report of the United States.

5) Internal Accounting and Administrative Controls

During fiscal year 2005, 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: In fiscal year 2005, the Trust continued consolidating assets with its primary custodian, 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.

Operations: During fiscal year 2005, the Trust took initial steps to create a financial accounting standards manual which will document the Trust custodian's accounting and pricing policy for all Trust investments. The Trust also began research on general ledger accounting systems which 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.

THIS PAGE

INTENTIONALLY

LEFT BLANK

Financial Statements and Independent Auditor's Report

National Railroad Retirement Investment Trust

Financial Statements for the Fiscal Year Ended September 30, 2005, and Independent Auditors' Report

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

TABLE OF CONTENTS

Deloitte

Deloitte & Touche LLP
Suite 800
1750 Tysons Boulevard
McLean, VA 22102-4219
USA

Tel: +1 703 251 1000
Fax: +1 703 251 3400
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To: Board of Trustees
National Railroad Retirement Investment Trust

We have audited the accompanying statements of assets and liabilities of the National Railroad Retirement Investment Trust (the "Trust"), including the schedule of investments, as of September 30, 2005 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. Our procedures included confirmation of securities owned as of September 30, 2005, by correspondence with the custodian and brokers. 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, 2005 the results of its operations, the changes in its net assets, its cash flow and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

November 22, 2005

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF ASSETS AND LIABILITIES
AS OF SEPTEMBER 30, 2005
($ In thousands)

ASSETS		
INVESTMENTS -- At value (cost, $27,596,560) (a)	$	31,684,570
CASH AND CASH EQUIVALENTS		417,254
CASH DENOMINATED IN FOREIGN CURRENCY -- At value (cost, $527)		530
DUE FROM BROKER -- VARIATION MARGIN		67
RECEIVABLE FOR INVESTMENTS SOLD		464,421
ACCRUED INCOME		
Dividends		13,435
Interest		33,043
UNREALIZED GAIN ON FOREIGN CURRENCY EXCHANGE CONTRACTS		3,882
OTHER ASSETS		258
Total assets		32,617,460
LIABILITIES		
DUE TO BROKER -- VARIATION MARGIN		161
OPTIONS WRITTEN -- At value (premiums received, $231)		231
SWAPS -- At value (cost, $2,089)		4,363
PAYABLE FOR INVESTMENTS PURCHASED		1,306,146
PAYABLE UPON RETURN OF INVESTMENT SECURITIES LOANED		3,624,174
UNREALIZED LOSS ON FOREIGN CURRENCY EXCHANGE CONTRACTS		5,577
ACCRUED EXPENSES		8,553
OTHER LIABILITIES		1,763
Total liabilities		4,950,968
NET ASSETS	$	27,666,492
ANALYSIS OF NET ASSETS		
NET ASSETS CONTRIBUTED TO THE TRUST		18,602,954
ACCUMULATED NET REALIZED GAIN ON INVESTMENTS		4,591,701
ACCUMULATED NET UNREALIZED GAIN ON INVESTMENTS		4,084,401
ACCUMULATED NET INVESTMENT INCOME		387,436
TOTAL NET ASSETS	$	27,666,492

See notes to financial statements.

(a) Includes $3.6 billion in total cash collateral pledged by the counterparties for investment securities loaned by the Trust. [See Notes to Financial Statements--Securities Lending]

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS
AS OF SEPTEMBER 30, 2005
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)	Value
US Equity		
Common Stocks (b)		
Financial Services, 10.4%		
Citigroup, Inc	4,692	$ 213,569
Bank America Corporation	3,485	146,732
JPMorgan Chase & Co	3,154	107,029
American International Group, Inc	1,464	90,716
Berkshire Hathaway, Inc	1	87,084
Wells Fargo & Co	1,126	65,971
Wachovia Corporation	1,376	65,484
St Paul Travelers Company, Inc	1,232	55,261
Morgan Stanley	970	52,335
Other	-	1,988,755
Total Financial Services (Cost, $2,800,409)		2,872,936
Information Technology, 7.1%		
Microsoft Corporation	6,974	179,428
Intel Corporation	5,106	125,872
IBM Corporation	1,185	95,038
CISCO Systems, Inc	4,812	86,275
Hewlett-Packard Development Company, L.P.	2,861	83,549
Google, Inc	209	66,086
DELL, Inc	1,754	59,976
QUALCOMM, Inc	1,240	55,495
Texas Instruments, Inc	1,627	55,164
Other	-	1,160,728
Total Information Technology (Cost, $1,879,011)		1,967,611

Note: The current 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.

See notes to financial statements.

(b) Includes $2.6 billion in Equity--US Common Stock loaned by the Trust as part of its Securities Lending activities. [See Notes to Financial Statements--Securities Lending]

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMBER 30, 2005
($ In thousands)

US Equity (continued)	Number of Units, Shares or Par Value (000)	Value
Common Stock (continued)		
Consumer Discretionary, 6.5%		
Time Warner, Inc	4,160	$ 75,345
Home Depot, Inc	1,764	67,274
Other	-	1,661,028
Total Consumer Discretionary (Cost, $1,820,426)		1,803,647
Health Care, 5.9%		
Pfizer, Inc	6,021	150,344
Johnson & Johnson	2,079	131,559
Amgen, Inc	997	79,428
United Health Group, Inc	1,266	71,155
WYETH	1,125	52,063
Other	-	1,146,637
Total Health Care (Cost, $1,472,672)		1,631,186
Industrials, 5.0%		
General Electric Company	7,158	241,009
Tyco International, Ltd	2,033	56,611
Other	-	1,087,745
Total Industrials (Cost, $1,319,757)		1,385,365
Energy, 4.4%		
Exxon Mobil Corporation	4,050	257,322
Chevron Corporation	1,854	120,020
ConocoPhillips	1,675	117,126
Other	-	718,678
Total Energy (Cost, $816,742)		1,213,146

Note: The current 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.

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMBER 30, 2005
($ In thousands)

US Equity (continued)	Number of Units, Shares or Par Value (000)	Value
Common Stock (continued)		
Consumer Staples, 3.4%		
Altria Group, Inc	1,667	$ 122,896
Procter & Gamble	1,424	84,647
Wal-Mart Stores, Inc	1,598	70,027
Pepsico, Inc	1,049	59,505
Other	-	615,023
Total Consumer Staples (Cost, $878,693)		952,098
Utilities, 1.7% (Cost, $386,941)	-	478,435
Materials, 1.6% (Cost, $429,251)	-	430,473
Telecommunications, 1.3%		
Verizon Communications	2,484	81,196
Sprint Nextel Corporation	2,486	59,122
SBC Telecommunications, Inc	2,165	51,906
Other	-	179,829
Total Telecommunications (Cost, $376,615)		372,053
Common Stock, 47.3% (Cost, $12,180,517)		13,106,950
Other Equity Securities (c), 0.3% (Cost, $57,634)	-	59,820
Total US Equity, 47.6% (Cost, $12,238,151)		13,166,770
Non US Equity		
BGI MSCI World ex-US Index Fund	544,378	6,153,253
Total Non US Equity, 22.2% (Cost, $3,183,637)		6,153,253
Private Equity		
Private Equity Investments, 0.2% (Cost, $52,594)	-	48,082
Total Equity, 70.0% (Cost, $15,474,382)		**$ 19,368,105**

Note: The current 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.

See notes to financial statements.

(c) Includes Corporate Convertible Bond and Preferred Stock.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMBER 30, 2005
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)	Value
Index Fund, 10.8%		
BGI US Debt Index Fund	71,149	$ 2,973,003
Total Index Fund (Cost, $2,747,927)		2,973,003
Government Mortgage Backed Securities, 6.9%		
FNMA 30 Years, Single Family Mortgage, 5%, Due 10-15-2033	185,015	181,083
FNMA 30 Year, Pass-Throughs, 6%, TBA	102,303	103,997
FNMA 30 Years, Single Family Mortgage, 5.5%, Due 10-15-2035	98,998	98,936
FNMA 30 Year, Pass-Throughs, 6.5%, Due 10-15-2035	79,439	81,748
FNMA 15 Years, Single Family Mortgage, 5%, Due 10-15-2018	73,147	72,941
Other TBA's	-	184,062
Other Government Mortgage Backed Securities	-	1,171,657
Total Government Mortgage Backed Securities (Cost, $1,908,273)		1,894,424
Government Bonds and Notes (d), 3.0%		
US Treasury Notes, 3.75%, Due 5-15-2008	99,220	98,158
US Treasury Notes, 4.25%, Due 8-15-2015	65,078	64,671
Other (e)	-	676,105
Total Government Bonds and Notes (Cost, $838,928)		838,934
Corporate Bonds (f), 2.9%		
Financial Services (Cost, $440,243)	-	434,271
Telecommunications (Cost, $96,983)	-	96,008
Consumer Discretionary (Cost, $77,929)	-	76,841
Energy (Cost, $57,124)	-	57,161
Utilities (Cost, $54,301)	-	53,536
Industrials (Cost, $43,451)	-	43,134
Consumer Staples (Cost, $15,407)	-	15,212
Materials (Cost, $11,562)	-	11,444
Health Care (Cost, $10,976)	-	10,897

Note: The current 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.

See notes to financial statements.

(d) Includes $753.7 million in Fixed Income--US Gov't Bonds loaned by the Trust as part of its Securities Lending activities. [See Notes to Financial Statements--Securities Lending]

(e) Includes $24.4 million in Fixed Income--Foreign Gov't Bonds loaned by the Trust as part of its Securities Lending activities. [See Notes to Financial Statements--Securities Lending]

(f) Includes $133.4 million in Fixed Income--US Corp Bonds loaned by the Trust as part of its Securities Lending activities. [See Notes to Financial Statements--Securities Lending]

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

SCHEDULE OF INVESTMENTS - (Continued)
AS OF SEPTEMBER 30, 2005
($ In thousands)

Fixed Income (continued)	Number of Units, Shares or Par Value (000)	Value
Corporate Bonds (continued)		
Information Technology (Cost, $1,809)	-	$ 1,796
Other (Cost, $5,857)	-	5,777
Total Corporate Bonds (Cost, $815,642)		806,077
Investment Fund, 2.1%		
Bridgewater I STIF Fund	25,791	265,440
Bridgewater Corporate Bond Fund	10,430	136,604
Fidelity Garrison Fund	749	74,491
Other	-	104,063
Total Investment Funds (Cost, $573,095)		580,598
Asset Backed Securities, 1.3% (Cost, $361,318)	-	359,155
Government Agencies (g), 1.3% (Cost, $358,249)	-	354,036
Non-Government Backed C.M.O.s, 1.2% (Cost, $343,678)	-	341,646
Commercial Mortgage Backed Securities, 0.9% (Cost, $264,859)	-	257,416
Index-Linked Government Bonds, 0.3% (Cost, $89,386)	-	90,487
Other Fixed Income Securities (h), 0.7% (Cost, $196,649)	-	196,515
Total Fixed Income (i), 31.4% (Cost, $8,468,004)		**8,692,291**
Securities Lending Collateral		
Core USA Fund (j)	-	3,624,174
Total Securities Lending Collateral, 13.1% (Cost, $3,624,174)		**3,624,174**
Total Investments, 114.5% (Cost, $27,596,560)		**31,684,570**
Net liabilities (Net assets less total investments), (14.5%)		**(4,018,078)**
Net Assets, 100%		**$ 27,666,492**

Note: The current 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.

See notes to financial statements.

(g) Includes $46.3 million in Fixed Income--US Gov't Agencies loaned by the Trust as part of its Securities Lending activities. [See Notes to Financial Statements--Securities Lending]

(h) Includes Index-Linked Corporate Bonds, Municipal/Provincial Bonds, Fixed Income Bills, Commerical Paper and Repurchase Agreements.

(i) Gross of net payables of $393.9 million. Fixed income assets, net of the $393.9 million net payables, are 30% of net assets.

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005
($ In thousands)

INCOME:	
Dividends	$ 220,010
Interest	158,225
Income from investment securities loaned, net	6,280
Total Income	384,515
EXPENSES:	
Investment management fees	18,858
Compensation	1,847
Professional fees	1,526
Trustee fees and expenses	125
Custodial fees	100
Other expenses	1,400
Total Expenses	23,856
NET INVESTMENT INCOME	360,659
REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS AND FOREIGN CURRENCY:	
Net realized gain (loss) from:	
Investments	1,291,852
Foreign currency transactions	(6,068)
	1,285,784
Net increase (decrease) in unrealized appreciation (depreciation) on:	
Investments	1,799,014
Translation of assets and liabilities in foreign currencies	(2,834)
	1,796,180
Net realized and unrealized gain from investments and foreign currency	3,081,964
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 3,442,623

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005
($ In thousands)

INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS		
Net investment income	$	360,659
Net realized gain from investments and foreign currency		1,285,784
Net increase in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies		1,796,180
Net increase in net assets resulting from operations		3,442,623
Assets transferred to the Treasury		(809,000)
NET ASSETS:		
Beginning of Year		25,032,869
End of Year	$	27,666,492

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005
($ In thousands)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	$ 3,442,623
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:	
Purchase of investments	(62,867,040)
Proceeds from disposition of investments	62,696,389
Proceeds from principal paydown of mortgage securities	267,300
Increase in due from broker - variation margin	(52)
Decrease in receivable for investments sold	1,065
Increase in collateral for investment securities loaned	(3,624,174)
Increase in accrued income	(28,685)
Decrease in other assets	23
Increase in due to broker - variation margin	106
Increase in options written	178
Increase in liability for swaps	4,363
Increase in payable upon return of investment securities loaned	3,624,174
Increase in payable for investments purchased	641,423
Increase in accrued expenses and other liabilities	7,022
Unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	(1,796,180)
Net realized gain from investments and foreign currencies	(1,285,784)
Net cash used in operating activities	(2,359,872)
Assets transferred to the Treasury	(809,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	273,751
CASH AND CASH EQUIVALENTS, Beginning balance	144,033
CASH AND CASH EQUIVALENTS, Ending balance	$ 417,784

See notes to financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

1. ORGANIZATION

Formation—The Trust was created as a result of Federal legislation. The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") established the National Railroad Retirement Investment Trust (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.

The Trust measures its performance against benchmarks for each of the Trust's investment strategies within its portfolio. The performance benchmark for the US Equity investment strategy is the Dow Jones Wilshire 5000 Index; the Non-US Equity investment strategy is the MSCI World ex-US Index; the Fixed Income investment strategy is the Lehman Brothers Aggregate Bond Index; and for Private Equity investments the Dow Jones Wilshire 5000 Index, plus 300 basis points.

At the outset of its investment activities, the Trust's assets were invested in Barclays Global Investors ("BGI") index funds. Over the past two years, the Trust diversified its investment portfolio by adding active investment management strategies. As of September 30, 2005, BGI continues to manage 33.0% of the Trust's investments in commingled index funds.

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.

Valuation of Investments—Index funds are valued daily by the custodian of that index fund. The index 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 General Partner ("GP") in accordance with GAAP and the terms of each partnership's governing agreement. 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. The Trust's private equity investments are recorded at the value determined by the GP of the investment partnership. 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 daily and the change in value is recorded as unrealized appreciation (or depreciation) until the Trust or its counterparty must take delivery upon the termination of the swap, at which time the Trust may record a realized gain (or loss) on the 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.

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 purchased and sold (written) during the fiscal year ended September 30, 2005 were as follows:

	Put Options		Call Options	
	Number of Contracts	Premiums Received	Number of Contracts	Premiums Received
Options outstanding 9/30/04	49	$ 35,957	49	$ 28,957
Options purchased	2,052	(648,562)	2,151	(672,365)
Options sold	(1,693)	980,585	(40,827)	748,497
Options expired	(801)	(139,311)	38,630	(102,513)
Options outstanding 9/30/05	(393)	$ 228,669	3	$ 2,576

As of September 30, 2005, the Trust held an unrealized gain of six hundred eighty-seven dollars on options transactions that included written call options outstanding with an expiration date of December 22, 2005, a strike price of one hundred thirteen dollars, and valued at five thousand dollars.

The Trust could be exposed to risk if the counterparties in these 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.

As of September 30, 2005, the following securities were pledged as collateral for the options and futures contracts entered by the Trust: Federal National Mortgage Association discount notes, due December 5, 2005; US Treasury Bills, due October 27, 2005, December 15, 2005, and December 1, 2005; and the following corporate notes: AOL Time Warner, Inc. note, 6.75% due April 15, 2011, AT&T Broadband Corporation note, 8.375% due March 15, 2013, Anadarko Finance Company note, 7.5% due May 1, 2031, Anadarko Petroleum Corporation note, 3.25% due May 1, 2008, Bank of America Corporation note, 3.25% due August 15, 2008, and BankAmerica Corporation note 5.875% due February 15, 2009. The securities pledged as collateral have a combined value of $14.2 million. These securities are restricted and can not be traded or re-pledged while posted as collateral.

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 contract closes, the daily variation margins are recorded as a realized gain or loss.

The Trust's use of financial futures transactions entails the risk of imperfect correlation in movements in the price of futures contracts and the value of the underlying hedged assets, and the risk associated with the possibility of an illiquid market. Should futures' market conditions change unexpectedly, and the Trust takes no action to respond to such changes, the Trust may not achieve the anticipated benefits of the financial futures contracts and may realize a loss.

As of September 30, 2005, the Trust held an unrealized gain of three hundred eighty-eight thousand dollars and recognized a realized gain of $6.1 million on futures transactions.

The Trust could be exposed to credit risk losses, if the counterparties to these transactions were unable to meet the payment terms of the contracts. 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.

[See *Options Contracts* for list of securities pledged as collateral for options and futures contracts.]

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. The Trust does not engage in foreign currency exchange rate arbitrage.

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, 2005, the Trust held $546.7 million in forward currency contract purchases pending as well as $548.4 million in forward currency contract sales pending, resulting in a $1.7 million net unrealized loss for forward currency contracts.

Swap Agreements —The Trust may enter swap transactions primarily for hedging purposes. Such purposes may include duration management, preservation of a return or spread on a particular investment or portion of a portfolio, or conversion of a financial instrument's variable rate payment stream to a fixed rate payment stream.

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, 2005, the Trust held a $4.4 million liability and a three hundred sixty thousand dollar asset related to swap transactions. The Trust recognized $2.3 million in unrealized losses on its swap liability and six hundred sixty-seven thousand dollars in unrealized losses on its swap asset, resulting in a $2.9 million net unrealized loss on swap transactions.

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, 2005 were as follows:

($ in thousands) Securities Loaned	Value of Securities Loaned	Cash Collateral Pledged	Value of Securities Loaned	Securities Collateral Pledged
Fixed Income--Foreign Gov't Bonds	$ 24,439	$ 25,478	$ -	$ -
Fixed Income--US Corp Bonds	133,425	136,404	11,687	11,947
Fixed Income--US Gov't Bonds	753,721	770,704	44,717	45,724
Fixed Income--US Agencies	46,301	47,359	73,020	74,569
Equity--US Common Stock	2,586,387	2,644,229	32,074	32,781
	$ 3,544,273	$ 3,624,174	$ 161,498	$ 165,021

As of September 30, 2005, the Trust earned $6.3 million from securities lending.

Repurchase Agreements—The Trust may enter repurchase agreements. Repurchase agreements involve a short-term sale or purchase of securities and an agreement to subsequently repurchase or sell the securities. When repurchase agreements are initiated, the Trust issues a confirmation of the sale or purchase of securities to a counterparty and a second confirmation of the Trust's obligation to subsequently repurchase or sell the securities. The repurchase price generally equals the price paid for the securities by the Trust, plus interest negotiated on the basis of current short-term rates. The interest is paid on the date when the agreement matures.

Securities pledged as collateral for repurchase agreements are held by a custodian bank until the respective agreement matures. Provisions of the repurchase agreements ensure that the value of the collateral, including accrued interest thereon, is sufficient in the event of default by the counterparty. If the counterparty defaults and the value of the collateral declines, or if the counterparty enters an insolvency proceeding, realization of the collateral by the Trust may be delayed or limited.

Common Stock—The Trust invests in common stock across all corporate sectors. Over 5% of the Trust's investments were in each of the following corporate sectors: financial services, information technology, consumer discretionary, and health care. As of September 30, 2005, common stock investments totaled $13.1 billion and represented 47.3% of the investments in the portfolio.

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, 2005, the Trust held $1.9 billion in 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, 2005, the Trust held a net investment in TBAs of $722.8 million, consisting of purchase agreements of $752.4 million and sale agreements of $29.6 million.

Government Bonds—The Trust invests in government bonds. These include bonds issued by the US government as well as foreign governments. As of September 30, 2005, the Trust held $838.9 million in government bonds.

Corporate Bonds—The Trust's investment in corporate bonds covers all corporate sectors. As of September 30, 2005, the Trust held $806.0 million in corporate bonds which represented 2.9% of the Trust's investments.

Income Taxes—The Trust is exempt from taxes under Section 501(c)(28) of the Internal Revenue Code of 1986.

Cash and Cash Equivalents— Cash and Cash Equivalents includes cash earning interest 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, 2005, the Trust held $417.8 million in Cash and Cash Equivalents.

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, 2005, investment management fees were $18.9 million (0.07 % of the average invested assets under management).

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, $2.7 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2005, $809 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 $1.4 million in legal fees during the fiscal year ended September 30, 2005. 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, 2005, the Trust made contributions of eighty-four thousand dollars 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
2006	269,560
2007	275,650
2008	283,090
2009	295,830
2010	302,480
Thereafter	893,950
Total	$2,320,560

Private Equity Investments– During the fiscal year ended September 30, 2005, the Trust contributed $41.8 million to Private Equity Investments in the leveraged buyout, venture capital and special situation sectors. As of September 30, 2005, the amount invested in these transactions was $52.6 million. The Trust has commitments to invest an additional $620.7 million in Private Equity Investments. This amount will be drawn down upon over the next ten years.

6. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2005.

	October 1, 2004-September 30, 2005
Financial Ratios (1):	
Expense to average net assets	0.09%
Net investment income to average net assets	1.4%
Total Return (2):	
Total Return	14.0%

(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.

******

APPENDICES

APPENDICES

A. By-Laws

B. Investment Guidelines

C. Memorandum of Understanding

D. Conflicts of Interest Policy Statement

E. Confidentiality Policy

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 2006 Tax Rate

I. Notice to the Railroad Retirement Board and Acceptance of New Trustee

J. Biographical Information on Trustees and Staff