

NRRIT

National Railroad Retirement Investment Trust

OCTOBER 2004

QUARTERLY UPDATE FOR THE PERIOD ENDING SEPTEMBER 30, 2004

The National Railroad Retirement Investment Trust ("NRRIT" or "Trust") issues a Quarterly Update to provide current information on Trust operations and activities relating to its investment operations. This Update reports on the Trust's activities for the quarter ending September 30, 2004. A copy of the Trust's Annual Management Report and each Quarterly Update is available on the website of the Railroad Retirement Board ("RRB"), <http://www.rrb.gov>.

As of September 30, 2004, NRRIT had received a total of \$21.3 billion from the RRB for investment. Most of this amount was transferred to it periodically during the first six months of its 2003 fiscal year beginning in October 2002, but an additional amount of \$586 million was received during the first six months of fiscal year 2004. No transfers were received in the fiscal quarter just ended. In the quarter ended September 30, 2004, NRRIT continued to transfer monies back to the Railroad Retirement Account ("RRA") to help fund benefit payments and administrative expenses. NRRIT transfers to the RRA in the quarter amounted to \$202 million. Since NRRIT's inception, it has transferred a total of \$1.9 billion to the RRA.

Investment Diversification

At the outset of its investment activities, the Trust adopted a policy of investing its assets in indexed accounts targeted to its major asset class allocation. During fiscal year 2003, NRRIT developed an Investment Plan and Procedures Manual which defines the process for diversifying the Trust's assets by using active investment strategies. The Trust began implementing active investment strategies in April 2004. At the end of the quarter, approximately 23% of NRRIT's equity assets and 22% of its fixed income assets were invested in active investment strategies, while the remaining funds continue to be invested in index funds. The Trust expects to increase its use of active investment management strategies in the future.

As the Trust begins to diversify its investment portfolio by adding active investment management strategies to its portfolio of index funds, its portfolio performance is expected to begin to deviate from the performance of its target indices. Through these

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strategies, the Trust expects to be able to add value relative to the target indices over reasonable investment periods. This diversification process will likely take several years to fully integrate across all asset classes, so the Trust's performance relative to its target indices should vary only marginally at the outset but gradually increase over time.

Investment Performance

Performance of the Trust's target indices for its major asset classes were mixed in the quarter ended September 30, 2004. The benchmark for the Trust's US equity investments, the DJ Wilshire 500 Index, was down -1.8% while the benchmark for the Trust's non-US equity investments and the benchmark for fixed income investments, the MSCI World ex US Index and the Lehman Brothers Aggregate Bond Index, were up 0.2% and 3.2% respectively. The Trust's investment performance was 0.3% during the quarter. The market value of assets managed by the Trust was \$25.0 billion on September 30, 2004, as compared to \$25.2 billion on June 30, 2004. The combined total of NRRIT managed assets and assets held in the Treasury accounts as of September 30, 2004 is approximately \$26.4 billion. This represents no change from the \$26.4 billion on June 30, 2004. The total of NRRIT managed assets and assets held in the Treasury account as of September 30, 2004 is \$5.7 billion above the \$20.7 billion equivalent value of Railroad Retirement System assets on February 1, 2002, the inception date of the Trust.

For the full year ended September 30, 2004, the investment portfolio managed by NRRIT achieved a 13.3% rate of return. This compares favorably to its composite benchmark index which increased 12.4% for the year.

Annual Report

NRRIT's Annual Management Report for Fiscal Year 2004, expected to be issued in January 2005, will contain additional information regarding the Trust's investment activities as well as other financial information.

Investment Staff

During the quarter, Caixia Yun and Michael Reeves joined the NRRIT staff as Senior Investment Advisors. Caixia received a MBA degree from Wake Forest University and is a Chartered Financial Analyst. Prior to joining NRRIT, Caixia worked with United Technologies Corporation as a portfolio manager. Michael received a MBA degree from the University of San Francisco and came to NRRIT from FleetBoston where he was responsible for private equity and limited partnership investments.