

# NRRIT

National Railroad Retirement Investment Trust

JANUARY 2008

## QUARTERLY UPDATE FOR THE PERIOD ENDING DECEMBER 31, 2007

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, 2007. 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, 2007, 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, 2007, 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 \$215 million. Since the Trust's inception, it has transferred a total of \$5.2 billion to the Treasury.

### 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, the Trust 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 69.0% of the Trust's US equity assets, 81.9% of its fixed income assets and 28.8% of its non US equity 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 continues to diversify its investment portfolio by adding active investment management strategies to its portfolio of index funds, its portfolio performance is expected to deviate from the performance of its target indices. Through the proper selection of active management strategies in conjunction with appropriate investment allocations to these strategies, the Trust expects to be able to add value relative to the target indices over

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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

Effective January 1, 2007, the Trust adopted a new strategic benchmark policy which measures performance of the Trust's assets across six macro asset classes. These macro asset classes and their strategic benchmarks are: US Equity – *Russell 3000 Index*, Non US Equity – *MSCI ACWI ex US Index*, US Fixed Income – *Lehman Brothers Aggregate Bond Index*, Non US Fixed Income – *JP Morgan Non-Dollar Bond Index*, Convertible Bonds – *ML All IG Convertible Bond Index*, and Cash – *3-month US Treasury Bill*. Performance of the Trust's assets and the strategic benchmark for each major asset class was mixed in the quarter ended December 31, 2007. Performance information for the quarter and the market value of assets managed by the Trust, as well as assets held in reserve by the RRB, are shown in the following table.

#### Performance for the Quarter ended December 31, 2007

Trust-managed assets	-1.3%
The Trust's macro asset class strategic benchmark performance:	
<i>Russell 3000 Index</i>	-3.3%
<i>MSCI ACWI ex-US Index</i>	-0.7%
<i>Lehman Brothers Aggregate Bond Index</i>	3.0%
<i>JP Morgan Non-Dollar Bond Index</i>	3.9%
<i>ML All IG Convertible Bond Index</i>	-2.3%
<i>3-month US Treasury Bill</i>	0.9%

#### Market Value of Assets (Asset values are in billions of dollars)

Trust-managed assets	
As of December 31, 2007	\$32.0
As of September 30, 2007	\$32.7
Change for quarter ended December 31, 2007	\$ -0.7
Trust-managed assets and RRB assets held in reserve	
As of December 31, 2007	\$ 33.2
As of September 30, 2007	\$ 34.0
Change for quarter ended December 31, 2007	\$ -0.8
As of February 1, 2002 (Trust inception)	\$20.7
Change since inception	\$12.5

### Trust Staff

The Trustees have accepted the resignation of Chief Executive Officer/Chief Investment Officer, William J. Raver, effective January 29, 2008. The Trustees appreciate Mr. Raver's contribution to the Trust.

Catherine A. Lynch, CFA, Senior Investment Officer, has been appointed interim Chief Executive Officer/Chief Investment Officer. David J. Locke, Managing Director of Global Private Markets, will take a broader role in oversight of the investment staff in both public and private markets.

### Annual Report

The Trust's Annual Management Report for Fiscal Year 2006, issued in January 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>.