

NRRIT

National Railroad Retirement Investment Trust
1250 Eye Street, NW
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January 2004

QUARTERLY UPDATE FOR THE PERIOD ENDING DECEMBER 31, 2003

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 December 31, 2003. 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 December 31, 2003, NRRIT had received a total of \$21.1 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 \$415 million was received during the quarter just ended. Also during the quarter, NRRIT continued transferring monies back to the Railroad Retirement Account to help fund benefit payments. NRRIT anticipates it will have received its full investment allocation by early 2004.

Investment Performance

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. With approximately 65% of assets indexed to equities, the Trust continued to benefit from rising stock prices in the quarter ended December 31, 2003. The Trust's target equity indexes are the Wilshire 5000 Index and the MSCI World Ex-US Index, which increased 12.4% and 17.0% respectively during the quarter. Its fixed income investment allocation targets the Lehman Aggregate Bond Index, which increased 0.3% in the quarter. The market value of NRRIT-managed assets increased to \$24.7 billion at the end of the quarter. The combined total of NRRIT investment funds and assets held in the Treasury accounts as of December 31, 2003 is approximately \$26 billion. This amount represents an increase of \$5.3 billion above the \$20.7 billion equivalent value of Railroad Retirement System assets on February 1, 2002, the inception date of the Trust.

NRRIT's Annual Management Report for Fiscal Year 2003, issued in January 2004, contains additional information regarding the Trust's investment activities as well as other financial information.

TRUSTEES:

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Dan E. Johnson, III
General Secretary-Treasurer
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John W. MacMurray
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Joel Parker
International Vice President
Transportation Communications
International Union

Account Benefits Ratio Certification/2004 Tier II Tax Rates

In accordance with the requirements of Section 23(a) of the Railroad Retirement Act of 1974, as amended by the Railroad Retirement and Survivors' Improvement Act of 2001 ("the Act"), on October 30, 2003, the RRB certified to the Secretary of the Treasury the account benefits ratios for each of the 10 preceding fiscal years. The account benefits ratio ("ABR") is the ratio of the fair market value of the assets in the Railroad Retirement Account and assets held by 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 tier II tax rates for railroad employers and employees beginning in calendar year 2004.

The Act requires the Secretary of the Treasury to determine the AABR and publish a notice in the *Federal Register* no later than December 1 of each year stating the tier II tax rates for the following calendar year. The Secretary determined that the AABR was 5.9. If the AABR is at least 4.0, but less than 6.1, the tier II tax rate for employers is 13.1 percent and the tier II tax rate for employees is 4.9 percent. On November 25, 2003, the Secretary published these rates as the tier II tax rates for 2004 in the *Federal Register*.

Investment Staff

During this quarter, Kevin J. Dachille joined the Trust as Director of Fixed Income. Mr. Dachille is a graduate of the University of Pennsylvania and received a Master's of Finance degree from Loyola College in Maryland. Mr. Dachille was Senior Vice President for the Investment and Wealth Management Division at Mercantile-Safe Deposit & Trust Company, Baltimore, MD. He has significant experience managing fixed income assets in his 25 years with that company, including serving as Head of Fixed Income for the Institutional Funds Management Group.