

NRRIT

National Railroad Retirement Investment Trust

**Annual Management Report for Fiscal Year 2019
Required by Public Law 107-90,
The Railroad Retirement and Survivors'
Improvement Act of 2001**

National Railroad Retirement Investment Trust
Mission Statement

The mission of the National Railroad Retirement Investment Trust is to help secure the retirement benefits of all participants of the railroad retirement system. Through the diligent oversight and prudent investment of railroad retirement assets, and an adherence to the highest ethical and professional standards within the industry, NRRIT's trustees and investment professionals contribute to the financial security of rail workers, retirees, and their families, and the strength of the American rail industry.

**ANNUAL MANAGEMENT REPORT OF THE
NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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1) Introductory Statement

A) Overview

During the Trust's 2019 fiscal year (October 1, 2018 - September 30, 2019), the global economy moved into its tenth year of expansion following the global financial crisis. However, growth moderated during the year, particularly in the manufacturing sector, as concerns over increasing US/China trade tensions, Brexit uncertainty, and rising geopolitical issues adversely impacted the global economy. Despite these macro-economic headwinds, labor markets remained strong, with the US unemployment rate falling to 3.5% in September, and inflation continued to be muted. In response to concerns over slowing growth, most global central banks, including the US Federal Reserve, indicated a more dovish approach to monetary policy in the latter part of the year, with the US Fed cutting rates three times in FY 2019. Because of this pivot by the Fed, US interest rates declined during the year, with the 10Y Treasury yield dropping 138 basis points. Elsewhere in many international developed markets, interest rates moved further into negative territory. Indeed, there were approximately \$16 trillion in negative-yielding global sovereign bonds, mostly in Europe and Japan, by the end of September. This dramatic decline in interest rates globally had a significant impact on asset class returns, and returns within asset classes (sectors, etc.), during the year.

In this environment, the National Railroad Retirement Investment Trust ("Trust") achieved an investment return of 2.8% (net of fees). This investment return compares with the return on the Trust's benchmark of 3.9% over the same period.

Overall, during fiscal year 2019, the net asset value of Trust-managed assets decreased from \$26.6 billion on October 1, 2018, to \$25.4 billion on September 30, 2019. This decrease in asset value includes \$1.8 billion that the Trust transferred to the US Treasury (the "Treasury") for railroad retirement (tier 2) benefit payments during the fiscal year.

Market Value of Trust-Managed Assets**(\$ in billions)**

October 1, 2018		\$26.6
Transfers from Trust to Treasury	\$(1.8)	
Net Change in value	0.6	
Net Increase/(Decrease)		-1.2
September 30, 2019		<u>\$25.4</u>

In addition to Trust-managed assets, other assets of the railroad retirement system are retained by the Railroad Retirement Board ("RRB") as reserves in accounts at the Treasury. These reserves are made up of recent payroll tax contributions from rail employers and employees, as well as assets that the Trust has transferred to the Treasury to pay future benefits. In order to understand the overall financial position of the railroad retirement system, it is important to consider both the Trust-managed assets and the system reserves held at the Treasury.

During its seventeen years of investment operations, the Trust has transferred \$24.7 billion to the Treasury to pay railroad retirement benefits. Even with these benefit payments, total railroad retirement system assets (Trust-managed assets plus reserves maintained at the Treasury) grew from \$20.7 billion in 2002 to \$27.3 billion as of the end of fiscal year 2019. As such, despite investment challenges encountered over the years, the Trust has made a significant contribution to the increase in total assets available to the railroad retirement system.

Trust-Managed Assets and RRB Assets Held in Reserve**(\$ in billions)**

February 1, 2002 (total system assets at Trust inception)		\$20.7
Net transfers from the Trust to the Treasury for payment of RR Benefits	\$ (24.7)	
Net Change in value*	31.3	
Net increase/(decrease)		6.6
September 30, 2019		<u>\$27.3</u>

* This includes investment return, payroll tax revenues, additional benefit payments and administrative expenses.

B) Portfolio Diversification

Over the past seventeen years, the Trust has deployed assets received from the Treasury into a diversified portfolio of US and non-US equity, and US and non-US fixed income securities. Over time, the Trust has furthered that diversification by allocating a percentage of the portfolio to private equity, private debt, real assets, commodities, and absolute return investments. 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. The assumption underlying this diversification of Trust assets is that not all asset classes will perform the same in any given market environment. As part of this diversification process, the Trust holds tens of thousands of different securities selected by its numerous investment managers, pursuing many different strategies, for the Trust portfolio. The Trust's Board and its investment staff carefully monitored the activities of the Trust's investment managers throughout the fiscal year, examining portfolio weights in each asset class, holdings within each asset class, and the work of active managers, in order to evaluate strategy and performance.

C) Board and Committee Matters

During this fiscal year, the Board and its investment staff reviewed and updated the Trust's investment, accounting, and operations procedures manuals. The Board and the investment staff also continued to monitor the Trust's asset allocation structure, though this review did not result in any changes to the Trust's *Investment Guidelines* that reflect the evolution of the Trust's portfolio in the current market environment.

The Board of Trustees met six times during the course of the year to consider the various investment and management issues that are discussed in this seventeenth Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibility. A copy of the Audit Committee Charter, as revised and approved by the Board on February 24, 2017, is

contained at Appendix I. A copy of the Administrative Committee Charter setting forth the duties of the Committee, as approved by the Board on May 22, 2013, is contained at Appendix J.

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 2019, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2019. Railroad management appointed Ms. Beth Miller, AVP Treasury & Risk Management, BNSF Railway Company, to a three-year term that expires on January 31, 2022. Railway labor unions appointed Mr. William C. Walpert, National Secretary-Treasurer Emeritus of the Brotherhood of Locomotive Engineers and Trainmen (BLET) to a three-year term that expires on January 31, 2022. In addition, the Trustees appointed Mr. William F. Quinn, former chairman and founder of American Beacon Advisors as the Chair of the Board of Trustees for the period February 1, 2019 - January 31, 2020.

Ms. Miller and Mr. Walpert joined the following five members on the Board: for terms expiring on January 31, 2020, Mr. Joel Parker, former Special Assistant to the President and International Vice President of the Transportation Communications International Union (TCU)/IAM, Mr. Richard G. Patsy, Assistant Vice President Pensions and Investments, CSX Corporation, and Mr. Quinn; and for terms expiring on January 31, 2021, Mr. George J. Francisco, Jr., President Emeritus, National Conference of Firemen and Oilers – SEIU, and Mr. Christopher R. Neikirk, Assistant Vice President Finance, Norfolk Southern Corporation.

Biographical information on the Trustees can be found in Appendix N.

B) Coordination with Federal Government Agencies

Throughout the fiscal year, the Trust maintained regular communications with the 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 a Memorandum of Understanding (“MOU”) entered into in 2002 with these entities and the Office of Management and Budget (“OMB”). This 2002 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. This MOU requires the Trust to report on a monthly basis: receipts and disbursements of funds, purchases and sales of assets, earnings and losses on investments, value of investments held, and administrative expenses incurred. A copy of the 2002 MOU is included in Appendix C.

The Trust and the RRB entered into a subsequent MOU in 2014 that delineates responsibilities and procedures for financial audits and performance reviews with respect to assets held by the Trust. This MOU formalizes the requirement that the Trust retain an independent qualified public accounting firm to annually audit the Trust's financial statements, and the deadline for transmittal of the audited financial statements to the RRB. In addition, this MOU contains provisions related to the timing, structuring, scope, and cost of periodic performance reviews, as well as the assessment of the results of the reviews. A copy of the 2014 MOU is included in Appendix D. Pursuant to this 2014 MOU, during the fiscal year the Trust engaged Cortex Applied Research, Inc. ("Cortex") to conduct an independent performance review of its investment guidelines, asset allocation, performance benchmarks, and investment plan. The report detailing Cortex's findings was provided to the RRB.

Pursuant to its established practice of periodic meetings with the RRB, during fiscal year 2019, the Trustees, the Chief Executive Officer/Chief Investment Officer, and Trust legal counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel and Chief Financial Officer to review the investment and administrative activities of the Trust. Senior staff of the two organizations and Trust legal counsel conferred after each quarterly meeting of the Trust's Board. Trustees and Members of the RRB met three times during the year. In addition, the Trust prepared Quarterly Updates that were transmitted to the RRB for posting on the RRB website to be available to all interested parties.

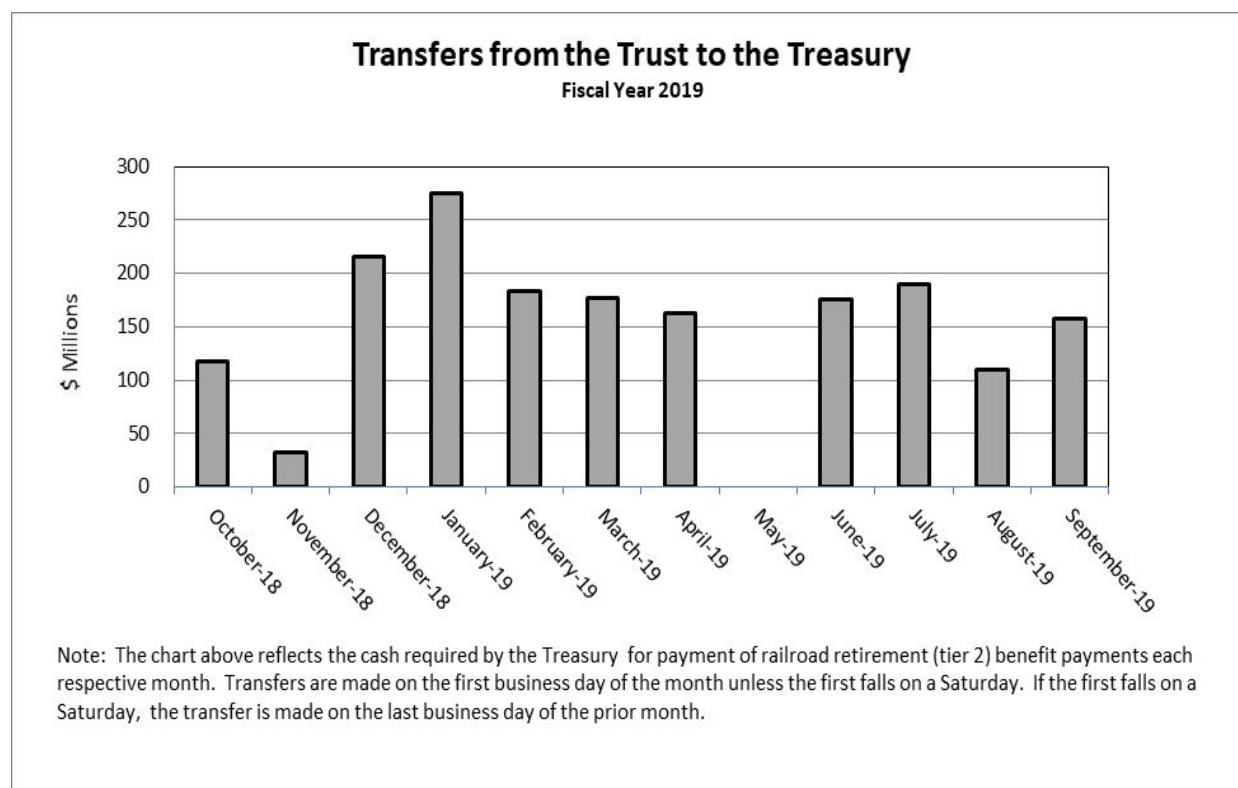
During 2019, the Trust also consulted with the RRB on its fiscal year-end audit and reporting processes to facilitate the transmittal of fiscal year audited net asset data of the Trust to the RRB by November 15 for use in its financial statements. In addition, the Trust worked with the U.S. Government Accountability Office ("GAO") during 2018 to

create an MOU related to GAO access to information supporting the Trust's audited financial statements. The MOU was finalized and implemented in fiscal year 2019, and provides for coordination between the GAO and the Trust's auditors to facilitate the inclusion of audited Trust net asset balances in the Financial Report of the United States Government. A copy of this MOU is included in Appendix E.

C) Transfers to and from the Treasury

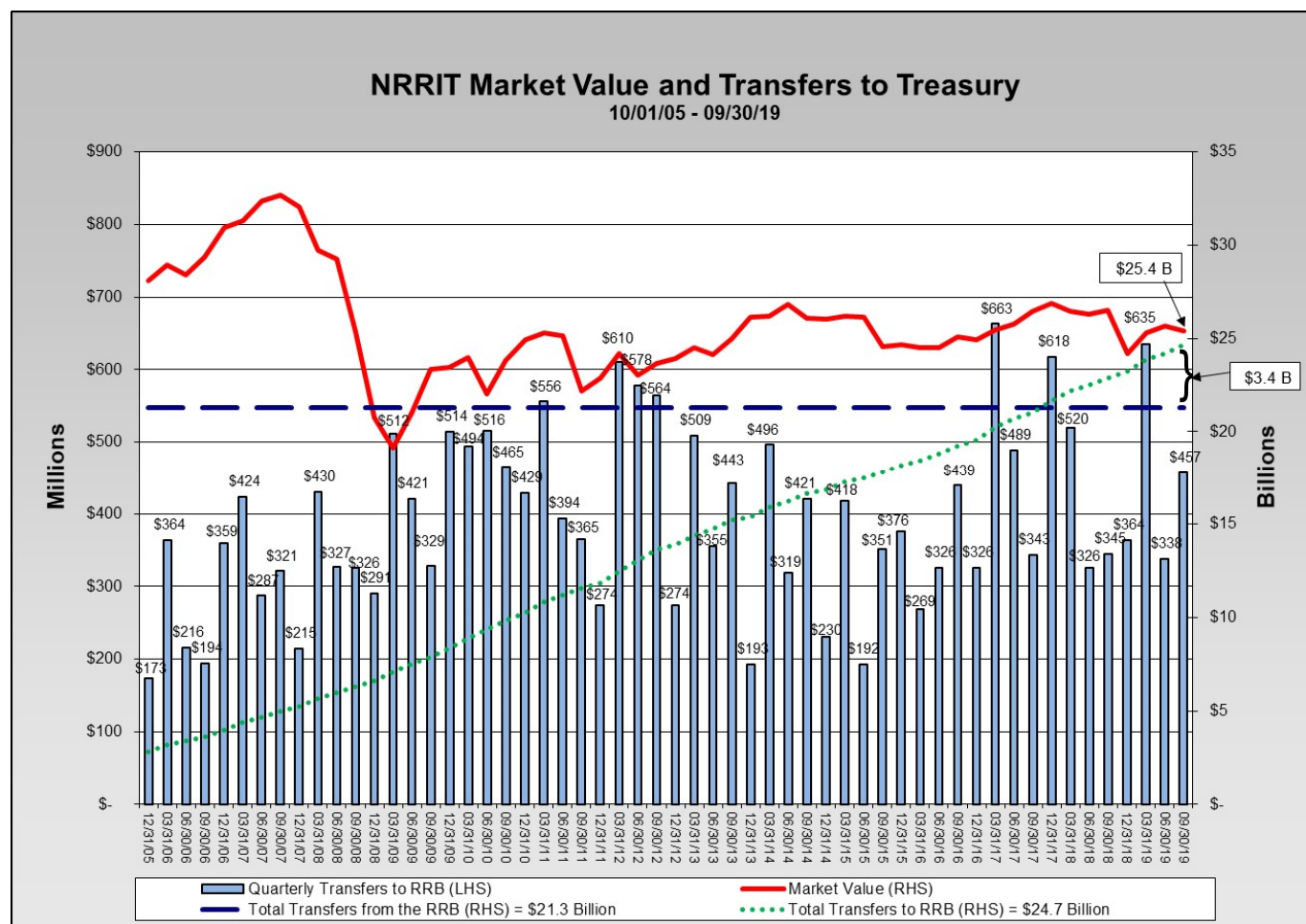
The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received \$21.3 billion of railroad retirement system funds. The Trust has received no transfers from the Treasury since the end of fiscal year 2004. 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 of amounts necessary to pay RRA benefits under the Act. During fiscal year 2019, the Trust transferred a total of \$1.8 billion 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 2019.



Summary of transfers: From its inception in February 2002 to September 30, 2019, the Trust has received \$21.3 billion from the Treasury. The Trust has since returned the entire \$21.3 billion, as well as an additional \$3.4 billion, to the Treasury; therefore cumulative transfers to the Treasury since inception are \$24.7 billion.

The assets received by the Trust have been invested in a diversified multi-asset-class portfolio in accordance with the Trust's *Investment Guidelines*. This diversification of assets away from the prior all-Treasury-securities portfolio has allowed the Trust's assets to grow beyond their original value. The cumulative increase in value in Trust-managed assets since inception is \$28.8 billion, representing total Trust-managed assets of \$25.4 billion as of September 30, 2019, plus \$3.4 billion in excess funds returned to Treasury. The following chart reflects the growth of the Trust's assets over time, as well as cumulative transfers between the Trust and the Treasury.



D) Account Benefits Ratio

The funds available to pay railroad retirement benefits and administrative costs include assets held in the RRA, the SSEB Account, and assets held by the Trust. 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 combined fair market value of RRA and Trust assets as of the close of the fiscal year to the total benefits and RRB and Trust expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the ten-year average of the ABR, is used to determine the tier 2 tax rates for railroad employers and employees.

As provided in the Act, the RRB computed the account benefits ratio for fiscal year 2019 and certified the ratio to the Secretary of the Treasury on October 29, 2019. The Secretary determined the AABR for fiscal year 2019 and on November 25, 2019 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2019. Copies of the RRB certification letter and the Treasury notice are contained in Appendix L. The ABR decreased from 4.86 for fiscal year 2018 to 4.60 for fiscal year 2019. The ten-year AABR declined from 5.1 at September 30, 2018 to 5.0 at September 30, 2019.

E) Trust Staff

The Trust's staff is comprised of professionals in three major areas of responsibility: investments, operations, and accounting. The investment staff reports to a Chief Executive Officer/Chief Investment Officer ("CEO/CIO"). The operations and accounting staff report to the Chief Financial and Operating Officer ("CFO/COO"). The CFO/COO and all investment directors report to the CEO/CIO. The CEO/CIO and staff are accountable to the Board of Trustees. The Trust also employs a Chief Compliance Officer ("CCO") to oversee compliance activities of the Trust. The CCO reports directly to the Trustees on all compliance-related matters.

Investment management personnel include Directors who are responsible for each major asset class. Working with the Directors are investment analysts assigned to specific

asset classes. The operations staff is responsible for tracking and monitoring Trust assets, as well as other operational functions such as treasury and cash management, information technology, office management, and human resources. The accounting staff interacts with the Trust's independent auditor, and is responsible for financial reporting in accordance with Generally Accepted Accounting Principles.

Biographical information on the Trust's staff can be found in Appendix N.

3) Operations of the Trust: Investment Matters

A) Overview

For fiscal year 2019, the investment return, net of fees, on Trust-managed assets was 2.8%, while the Trust's strategic benchmark returned 3.9%. The relative underperformance for the Trust during the current fiscal year was driven by the investment performance of the Trust's investment managers as well as the tactical investment positions taken by the Trust.

The top three performing asset classes for the Trust were public real estate, private equity, and private real assets, which returned 13.6%, 10.9% and 9.2% respectively for the year. The Trust maintains a long-term focus and a well-diversified portfolio to take advantage of market movements regardless of which asset classes are in favor in any single year.

B) Investment Plan: Structure

Since its inception in September 2002, the Trust's asset class structure has evolved from a portfolio consisting entirely of government securities, to a simple three-asset-class approach, and finally to a structure which is more fully diversified across geography, capitalization size, investment style, credit quality, and other characteristics. The Trust's *Investment Guidelines* specify the neutral target allocation and approved ranges for each asset class, as well as rules for rebalancing back towards these neutral targets as market valuations change. The *Investment Guidelines* also provide a policy benchmark for each asset class and a composite benchmark for the total portfolio to measure actual Trust performance against an objective standard. The Trust's most recent full asset allocation study was conducted during fiscal year 2017 and resulted in minor revisions to the previous target allocations and ranges reflecting changes in capital market expectations since the previous asset allocation study. The new target allocations and ranges became effective beginning October 1, 2017. The Trust's *Investment Guidelines* are included in Appendix B.

Current Long-Term Target Asset Allocation***(Approved August 16, 2017)***

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
US Equity	24%	19-29%
Non-US Equity	24%	19-29%
Private Equity	10%	5-15%
US Fixed Income	14%	10-18%
Non-US Fixed Income	4%	2-6%
Private Debt	2%	0-4%
Real Estate	10%	5-15%
Commodities	4%	2-6%
Absolute Return	7%	3-11%
Cash	<u>1%</u>	0-3%
	<u>100%</u>	

C) Investment Plan: Implementation

US Equity: There were no additions or terminations to the US equity manager accounts during the fiscal year. At the end of the fiscal year, this asset class had 15 active US equity managers, two of which manage two separate accounts, and one US equity index manager managing three products. 72% of the Trust's US equity portfolio was actively managed at the end of the fiscal year.

Non-US Equity: During fiscal year 2019, the Trust added three active manager accounts with new managers, and terminated one active and two passive manager accounts. The Trust ended fiscal year 2019 with 14 active non-US equity managers, two of which manage two separate accounts each and one of which manages three separate accounts, and one index manager, which manages three products in non-US equity. Approximately 95% of the Trust's non-US equity allocation was actively managed. Additionally, for the currency overlay program, there were no additions or terminations,

and the Trust continued to employ three active managers at the end of the fiscal year.

US Fixed Income: There were no additions or terminations to the US fixed income manager accounts during the fiscal year. At the end of the fiscal year, this asset class had 13 active/specialist managers, and 100% of the Trust's US fixed income allocation was actively managed.

Non-US Fixed Income: There were no additions or terminations to the Non-US fixed income manager accounts during the fiscal year. At the end of the fiscal year, this asset class had five active managers, and 100% of the Trust's non-US fixed income allocation was actively managed.

Commodities: During fiscal year 2019, there were no additions or terminations in this asset class. At the end of the fiscal year, this asset class had three active managers, and 100% of the Trust's allocation to commodities was actively managed.

Absolute Return: There were no additions or terminations to the absolute return asset class during the fiscal year. At the end of the fiscal year, this asset class had 11 active/specialist managers, one of which manages four separate portfolios for the Trust, and two of which each manage two separate portfolios for the Trust. This allocation is 100% actively managed. Additionally, one commitment was made to an existing manager for a new mandate scheduled to begin during fiscal year 2020.

Private Equity: During fiscal year 2019, the Trust continued its private equity program implementation with eight new private equity funds with existing managers, bringing the total number of active partnerships in the private equity portfolio to 100 at the end of the fiscal year. These 100 partnerships are actively managed by 39 managers. Additionally, commitments were made to one new partnership with a new manager and five new partnerships with existing managers scheduled to begin their investment period during fiscal year 2020. One partnership wound up operations upon reaching the end of its fund life during the fiscal year.

Private Debt: Two new private debt funds with new managers began their investment period during fiscal year 2019, bringing the total number of active partnerships in private debt to 13 at the end of the fiscal year. These 13 partnerships

are actively managed by 9 managers. Additionally, commitments were made to two new partnerships with new managers, which were scheduled to begin their investment period during fiscal year 2019. One partnership wound up operations upon reaching the end of its fund life during the fiscal year.

Real Assets: One new real estate partnership with a new manager and eight new partnerships with existing managers began their investment period during fiscal year 2019, bringing the total number of active partnerships in real assets to 90. These 90 partnerships are actively managed by 36 managers. Additionally, commitments were made to five new partnerships, all with existing managers, which were scheduled to begin their investment period during fiscal year 2020. The Trust also had investments in three actively-managed REIT funds at the end of the fiscal year.

Cash: During fiscal year 2019, the Trust added one active manager account. At the end of the fiscal year, this asset class had one account with an active manager and one passive account with the Trust's custodian bank.

D) Proxy Voting Policy

The Trust maintains a 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 retains for the Trust itself responsibility for monitoring, reviewing, and reporting on the implementation of the proxy voting policy. A copy of the proxy voting policy can be found in Appendix H.

Each year, managers with proxy voting responsibilities are required to certify that they have 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 reviews and reports to the Board of Trustees regarding each manager's proxy voting record with respect to Trust securities.

E) Railroad Retirement System Assets

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 7.0% of the total, or \$1.9 billion out of \$27.3 billion as of September 30, 2019, is held in the form of reserves that are invested in Treasury securities by the RRB. 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 policies accordingly.

F) Expenses

The largest component of the Trust's expenses is investment management fees which now constitute approximately 83% of all expenses. Total expenses as a percentage of assets under management have stabilized as the investment portfolio has been transitioned from an all-indexed portfolio to one that is primarily actively managed. The expense ratio compares favorably to investment industry standards. The Trust's expense ratios for the past ten years are shown below.

Trust Expense Ratio

FY 2010 – FY 2019

Fiscal Year	Expense Ratio (%)
2019	0.27
2018	0.29
2017	0.31
2016	0.28
2015	0.27
2014	0.29
2013	0.29
2012	0.30
2011	0.36
2010	0.33

4) Audit Committee

The Audit Committee (the “Committee”) held four meetings during fiscal year 2019. During the year, the Committee engaged KPMG LLP to perform the annual audit of the Trust’s financial statements for the fiscal year-ended September 30, 2019. The Audit Committee provided oversight of the financial statement audit process in accordance with its fiduciary duty to the Trust. The Trust issued its financial statements which contained an unqualified audit opinion, within 45 days of its fiscal year-end. This allowed the RRB to include the Trust’s audited net assets in its financial statements and meet its financial reporting deadline.

Also during fiscal year 2019, the Committee provided oversight of the Trust’s ongoing program of periodic performance reviews. This included the retention of a qualified, independent, non-governmental organization to conduct a performance review during fiscal year 2019. The scope of the performance review included an assessment of the Trust’s investment guidelines, asset allocation, performance benchmarks, and investment plan. The review was completed during the fiscal year, in accordance with the terms of the 2014 MOU included in Appendix D.

The Trust maintains a whistleblower telephone hotline as a means for all Trust employees, investment managers, service providers and other interested parties to report, on a confidential basis, any suspected acts of fraud or actions involving the inaccurate or incomplete recording of financial information. The Committee monitors this hotline throughout the year. The hotline number is (877) 888-0002.

5) Internal Accounting and Administrative Controls

During fiscal year 2019, 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's activities. Enhancements were made to the Trust's accounting and operations procedures manuals, and these updates were presented to the Trustees.

A) Custodial Arrangements

The Trust's assets are primarily held by its custodian, The Northern Trust Company ("Custodian"). Assets invested in commingled funds are held with the custodian of each respective fund. Likewise, investments in private partnerships and absolute return strategies are maintained by the custodian or administrator of each respective fund. Periodic statements are presented to and recorded by the Custodian on the Trust's books. The Custodian maintains records of, and custodial accounts for, all of the Trust's assets.

As the Trust's investments have grown in complexity over the years, the Trust has worked closely with the Custodian to enhance internal processes, procedures, and systems supporting all investment and operational activity.

B) Accounting

The Custodian provides the Trust with investment performance of Trust assets, as well as a record of all transactions involving Trust assets. Reconciliations of the primary custodial records to the investment managers' records are performed monthly. The Trust 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 custodial bank form an integral part of the Trust's required reports and financial statements.

6) Financial Status of the Trust

A) Financial Statements and Independent Auditors' Report

*National Railroad
Retirement Investment
Trust*

*Financial Statements as of and for the
Fiscal Year Ended September 30, 2019, and
Independent Auditors' Report*

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

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KPMG LLP
Suite 900
8350 Broad Street
McLean, VA 22102

Independent Auditors' Report

The Board of Trustees
National Railroad Retirement Investment Trust

We have audited the accompanying financial statements of the National Railroad Retirement Investment Trust, which comprise the statement of assets and liabilities, including the condensed schedule of investments, as of September 30, 2019, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements 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 are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Railroad Retirement Investment Trust as of September 30, 2019, and the results of its operations, changes in net assets, and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

November 15, 2019

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Statement of Assets and Liabilities

As of September 30, 2019

(\$ in thousands)

Assets

Investments — at fair value (cost \$20,135,631)	\$ 25,109,691
Cash and cash equivalents (including restricted cash of \$40,257)	666,322
Receivable for investments sold	433,361
Interest receivable	33,899
Cash denominated in foreign currency — at fair value (cost \$24,809)	24,485
Dividends receivable	24,054
Unrealized gain on forward contracts	21,777
Securities sold under agreements to repurchase	16,500
Swap contracts, at fair value	8,490
Other assets	27,299
Total assets	<u>26,365,878</u>

Liabilities

Payable for investments purchased	887,231
Swap contracts, at fair value	36,054
Accrued management fees	20,400
Unrealized loss on forward contracts	18,511
Obligation to return cash collateral held	4,197
Other liabilities	11,588
Total liabilities	<u>977,981</u>

Net Assets	<u>\$ 25,387,897</u>
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The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
Global Equity			
US Equity			
US Common Stocks			
Microsoft Corp.		1,015	\$ 141,137
Amazon.com Inc.		54	93,526
Facebook Inc.		524	93,246
Visa Inc.		483	83,087
Apple Inc.		363	81,288
Alphabet Inc. Class A		61	74,482
Citigroup Inc.		924	63,822
Other US Common Stocks			3,828,974
	17.56%		4,459,562
Other US Equity Securities (a)	0.05%		12,959
US Equity Commingled Funds			
BlackRock Russell 1000 Index Fund		28,736	1,302,478
BlackRock Russell Growth Index Fund		11,719	501,468
Other US Equity Commingled Funds			8,017
	7.14%		1,811,963
Total US Equity	24.75%		\$ 6,284,484

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments (continued)

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
Global Equity (continued)			
Non-US Equity			
Non-US Common Stocks			
Samsung Electronics Co. Ltd.		2,342	\$ 96,057
Alibaba Group Holding Ltd.		536	89,692
Nestlé S.A.		698	75,840
Roche Holdings AG		246	71,688
Tencent Holdings Ltd.		1,574	66,287
Other Non-US Common Stock			5,458,381
	23.07%		5,857,945
Non-US Preferred Stocks	0.23%		57,169
Non-US Equity Commingled Funds			
BlackRock MSCI EAFE Equity Index Fund		6,631	164,921
BlackRock World ex-US Small Cap Equity Index Fund		4,118	93,881
BlackRock MSCI Equity Index Fund (Canada)		680	61,883
	1.26%		320,685
Total Non-US Equity	24.56%		\$ 6,235,799

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments (continued)

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
Global Equity (continued)			
Private Equity			
Emergence Capital Partners III		13,518	\$ 87,831
AlpInvest North Rush, LP		28,693	81,527
Silver Lake Partners IV, LP		23,726	78,748
Blackstone Capital Partners VI, LP		11,999	78,071
McCoy Investments LP		1	75,566
TCV VIII, LP		46,430	71,549
AlpInvest North Rush II, LP		71,735	71,373
TCV VII, LP		1	67,466
Apollo Investment Fund VIII, LP		42,419	64,539
NGP Natural Resources XI, LP		47,785	61,966
TA XII-A LP		37,002	61,074
Other Private Equity			1,532,752
Total Private Equity	9.19%		2,332,462
 Total Global Equity (cost \$11,180,595)	 58.50%		 \$ 14,852,745
Global Fixed Income			
Corporate Bonds	6.49%		\$ 1,648,542
Government Notes and Bonds			
US Treasury Notes, 2.625%, 02/15/29		130,231	140,950
US Treasury Bonds, 2.125% 05/15/25		85,070	87,476
Other Government Notes and Bonds			1,241,437
	5.79%		1,469,863
Government-Sponsored Entity Mortgage - Backed Securities ("MBS")	3.67%		932,428

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments (continued)

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
<i>Global Fixed Income (continued)</i>			
Asset Backed Securities	0.99%		\$ 250,697
Commercial MBS	0.48%		121,652
Private Debt	0.45%		113,045
Government Agencies	0.40%		101,665
Index-Linked Government Bonds	0.31%		79,273
Municipal Bonds	0.19%		49,280
Other Fixed Income Securities (b)	0.18%		44,676
Non-Government Collateralized Mortgage Obligations	0.17%		42,386
Short-Term Bills and Notes	0.04%		11,298
Fixed Income Commingled Funds			
Wellington Emerging Market Debt		13,441	134,274
AG Mortgage Value Partners		73,638	123,762
Other Fixed Income Commingled Funds			77,546
	1.32%		<u>335,582</u>
<i>Total Global Fixed Income (cost \$5,050,829)</i>	20.48%		<u>\$ 5,200,387</u>

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments (continued)

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
Global Real Assets			
Private Real Estate			
Northwood Real Estate Partners, LP		37,822	\$ 86,413
Blackstone Real Estate Partners VII, LP		1	82,614
Prudential PRISA II		2	73,844
Other Private Real Estate			1,592,008
	7.23%		<u>1,834,879</u>
Commodities			
Wellington Commodity Fund		34,641	293,411
Gresham ETAP Fund		355,000	292,747
PIMCO Short-Term Floating NAV Portfolio II		17,182	172,006
	2.99%		<u>758,164</u>
Real Estate Investment Trusts (c)	2.03%		<u>516,385</u>
Total Global Real Assets (cost \$2,456,145)	12.25%		<u>\$ 3,109,428</u>

Absolute Return

Elliott International Class B	224	\$	325,845
Bridgewater Pure Alpha II Ltd Class B	135		322,899
Element Capital US Feeder Fund LLC	140,000		198,301
Farallon Capital Institutional Partners	125,000		168,084
Davidson Kempner International Ltd Class C	975		156,585
Tilden Park Investment Fund LP	100,000		115,700
CQS Directional Opportunities Feeder Fund Ltd Class A	17		112,736

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments (continued)

As of September 30, 2019

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000)	Fair Value
<i>Absolute Return (continued)</i>			
Carlson Double Black Diamond Ltd Series Z		869	\$ 112,660
Blue Mountain Credit Alternatives		1,074	98,544
Two Sigma Absolute Return Fund		47	84,100
PDT Fusion Fund, LLC Class A		569	80,095
PDT Mosaic Fund, LLC Class A		541	70,439
Other Absolute Return Funds			101,143
Total Absolute Return (cost \$1,448,062)	7.67%		\$ 1,947,131
 Total Investments (cost \$20,135,631)	 98.90%		 25,109,691
 Other Assets less Liabilities	 1.10%		 278,206
 Net Assets	 100%		 \$ 25,387,897

Note: The Condensed Schedule of Investments presents the investments of the National Railroad Retirement Investment Trust within each asset class while identifying the largest 50 holdings in the portfolio, including all holdings exceeding 5% of net assets.

- (a) Includes Purchased Options, Preferred Stock, Exchange-Traded Funds, and Rights/Warrants.
- (b) Primarily consists of Government-Issued Commercial MBS.
- (c) Primarily consists of exchange-traded equity instruments in both US and Non-US real estate investment trusts.

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Statement of Operations

For the Fiscal Year Ended September 30, 2019

(\$ in thousands)

Income	
Dividends	\$ 303,701
Interest	187,755
Total income	<u>491,456</u>
Expenses	
Investment management fees	56,354
Compensation and benefits	4,370
Professional fees	2,131
Investment related fees and expenses	2,058
Network, software and systems	990
Occupancy expense	730
Custodial fees	157
Trustee fees and expenses	132
Other expenses	886
Total expenses	<u>67,808</u>
Net investment income	423,648
Realized and unrealized gain/loss from investments and foreign currency	
Net realized gain from investments and foreign currency	864,388
Net change in unrealized gain/loss from investments and foreign currency	<u>(669,594)</u>
Net realized and unrealized gain/loss from investments and foreign currency	<u>194,794</u>
Change in net assets resulting from operations	<u>\$ 618,442</u>

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Statement of Cash Flows

For the Fiscal Year Ended September 30, 2019

(\$ in thousands)

Cash flows from operating activities:

Change in net assets resulting from operations	\$ 618,442
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Adjustments to reconcile change in net assets from operations
to net cash provided by operating activities:

Proceeds from sales and maturities of long-term investments	25,208,768
Purchase of long-term investments	(24,093,619)
Net realized gain from investments and foreign currency	(864,388)
Net change in unrealized gain/loss on investments and foreign currency	669,594
Net proceeds from purchases/sales of short-term investments (a)	(178,130)
Change in receivable for investments sold	162,154
Proceeds from principal paydowns of asset-backed securities	154,976
Change in payable for investments purchased	(60,318)
Net decrease in cash from swap contract transactions	46,025
Change in obligation to return cash collateral held	(30,659)
Change in other assets	(8,642)
Change in interest receivable	5,469
Change in other accrued expenses and liabilities	(4,595)
Change in accrued investment management fees	3,700
Change in dividends receivable	(3,472)
	<u>1,625,305</u>

Cash flows from financing activities:

Assets transferred to the Treasury	<u>(1,794,000)</u>
	<u>(1,794,000)</u>

Effect of foreign currency on cash	<u>16,745</u>
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Net change in cash, cash equivalents and foreign currency	<u>(151,950)</u>
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Beginning balance	842,757
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Ending balance	<u><u>\$ 690,807</u></u>
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(a) Short-term investments consist of debt instruments and repurchase agreements with original maturities of less than 60 days.

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Statement of Changes in Net Assets

For the Fiscal Year Ended September 30, 2019

(\$ in thousands)

Change in net assets from operations:	
Net investment income	\$ 423,648
Net realized gain from investments and foreign currency	864,388
Net change in unrealized gain/loss from investments and foreign currency	<u>(669,594)</u>
Net change in net assets resulting from operations	618,442
Assets transferred to the Treasury	(1,794,000)
Net Assets:	
Beginning of year	<u>26,563,455</u>
End of year	<u><u>\$ 25,387,897</u></u>

The accompanying footnotes are an integral part of these financial statements.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

1. ORGANIZATION

Formation — The National Railroad Retirement Investment Trust (the “Trust”) was created as a result of Federal legislation. The Railroad Retirement and Survivors’ Improvement Act of 2001 (the “Act”) established 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 under section 501(c)(28) of the Internal Revenue Code of 1986, and 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 80 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.

Except for limited partnership interests in Private Real Assets funds, Private Debt funds, Private Equity funds, Absolute Return funds and derivative instruments owned by the Trust, generally all assets in the Trust’s portfolio are held by custodians appointed by the Trust, or transfer agents in the case of commingled funds.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation — The Trust qualifies as an investment company and follows the accounting and reporting requirements of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, *Financial Services – Investment Companies*. The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), including but not limited to ASC 946.

Valuation of Investments — The Trust follows FASB ASC Topic 820, *Fair Value Measurement*. The Topic establishes a single definition of fair value, creates a three-tier hierarchy as a framework for measuring fair value based on inputs used to value the Trust’s investments, and requires certain disclosures about fair value. The Topic defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. See Note 3 for further information on fair value.

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. 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 estimate the fair value of a foreign security should something occur that renders quotations not readily available for a foreign security.

Security Transactions, Accrued Income, and Expense — The Trust records purchases and sales of investment securities on a trade-date basis. Interest income is determined on the basis of coupon interest accrued using the effective 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.

Cash and Cash Equivalents — Cash and cash equivalents includes cash 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, 2019, the Trust held approximately \$40.3 million of restricted cash, representing initial margin on futures contracts and pledged collateral received from counterparties for option, swap or forward contracts.

Foreign Currency – Foreign currency includes deposits held at banks that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

rates. These deposits are translated into US dollars at the prevailing foreign exchange spot rates on the date of valuation.

Options Contracts — The Trust may purchase or sell (write) exchange-traded or over-the-counter (“OTC”) options contracts to hedge against risks associated with price fluctuations for certain securities, or as a cost-effective means to gain exposure to a particular security, commodity, or other economic factor.

When either a put or call option is purchased, the contract is recorded as an investment and the premium is marked-to-market daily to reflect the current fair 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 is 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 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.

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

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 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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

financial instrument. The Trust records a receivable or payable (and corresponding realized gain or loss) equal to the daily variation margin. Futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade.

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. 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.

Foreign Currency Translation — The Trust maintains accounting records in US dollars. All investments quoted in foreign currency are translated into US dollars at the prevailing foreign exchange spot rates on the date of valuation. 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.

Foreign securities are valued as of the close of each foreign security's market wherein each security trades. 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.

Forward Contracts — The Trust may use forward contracts to gain exposure to or hedge against foreign currency exchange rate fluctuations, commodity price movements, and other economic factors.

The Trust may also 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. Differences in currency exchange rates can adversely impact the value associated with the purchasing or selling of investment securities denominated in a foreign currency.

Forward contracts are adjusted daily by the prevailing spot or forward rate of the underlying asset, 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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

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 forward contract or if the value of the underlying 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.

Swap Contracts — The Trust may enter swap transactions for hedging purposes and/or to efficiently gain exposure to a particular asset class index.

Swaps are marked-to-market daily based upon values from third party vendors or quotations from other sources. Unrealized appreciation is recorded as an asset and unrealized depreciation is recorded as a liability on the Statement of Assets and Liabilities. The change in value of swaps, including accruals of periodic amounts of interest to be paid or received on swaps, is recorded as unrealized gain/loss from investments and foreign currency in the Statement of Operations. Payments received or made at the beginning of the measurement period represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap contracts and prevailing market conditions (credit spreads, currency exchange rates, interest rates, and other relevant factors). A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss in the Statement of Operations. Net periodic payments received by the Trust are included as part of the realized gain or loss in the Statement of Operations.

Entering into these contracts involves, to varying degrees, elements of credit, market and counterparty risk in excess of the amounts recognized in the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these contracts, that the counterparty to the contracts may default on its obligations to perform or disagree as to the meaning of contractual terms in the contracts, and that there may be unfavorable changes in interest rates. At the time a swap contract 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 Trust's swap contracts consist of interest rate swaps, credit default swaps and total return swaps.

Repurchase Agreements — The Trust may engage in repurchase agreement transactions, whereby a security is simultaneously purchased and sold under a master forward agreement.

Income Taxes — The Trust is exempt from federal income taxes under Section 501(c)(28) of the Internal Revenue Code of 1986 and from state and local taxes pursuant to Section 231(n)(j)(6) of the Railroad Retirement Act of 1974. As such, no provision for income taxes is included in the financial

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

statements. The Trust is subject to unrelated business income tax, in connection with certain of its limited partnership and commingled fund interests. For the fiscal year ended September 30, 2019, the Trust had no unrelated business income tax expense.

Uncertain tax positions are evaluated in accordance with the Income Taxes Topic ("Topic 740") of the FASB ASC. The Trust has no material uncertain tax positions.

Investment Management Fees — The Trust has entered into investment management agreements with third party investment managers. These agreements provide for the payment of investment management fees, which are generally paid on a quarterly basis. The fees are calculated as a percentage of the weighted-average value of assets under management, with an additional performance fee in some instances.

Counterparty Risk and Collateral — The Trust invests in derivatives that are transacted and settle directly with a counterparty and thereby expose the Trust to counterparty risk. To mitigate this risk, the Trust's third party investment managers have entered into master netting arrangements with certain counterparties that permit net settlement under specified conditions and, for certain counterparties, also provide collateral agreements. The Trust accounts for derivatives on a gross basis. It does not offset the fair value of derivative liabilities against the fair value of derivative assets in its financial statements.

Use of Estimates — The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

3. FAIR VALUE MEASUREMENT

The Trust's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB's guidance on fair value measurement.

The hierarchy of inputs is summarized below.

Level 1 — Investments that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access at the measurement date. The types of investments generally included in this category are exchange traded common and preferred stock, futures contracts, foreign currency, and commingled funds in which the Trust's ownership interest in such fund is traded in an active market. The fair value of these securities is generally based on quotations

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

obtained from national securities exchanges or published to investors by the issuer of the commingled fund.

Level 2 — Investments valued using observable inputs such as quoted prices for identical securities in inactive markets or quoted prices for similar securities in active markets. Where securities are not listed on an exchange, quotations may be obtained from brokerage firms. Other observable inputs may include such factors as interest rates, credit spreads, prepayment speeds, and credit risk, among other relevant factors. Level 2 investments generally included in this category are bonds, swap contracts, foreign currency exchange contracts, and options contracts.

Level 3 — Investments valued using pricing inputs which are both unobservable and significant to the valuation. The Level 3 investments consist primarily of private placement corporate bonds and certain foreign government bonds. The significant unobservable inputs used in the fair value measurement of these securities are predominantly uncorroborated non-binding broker quotes, and extrapolated data points in security pricing models. These prices are provided by third-party pricing services, and the range of unobservable inputs applied by these sources is not readily available or cannot be reasonably estimated. Significant changes in any of those inputs could result in a significantly different fair value measurement.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Trust's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Investments are transferred into or out of any level at their beginning period values.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, and other characteristics. To the extent that valuation is based on models or inputs that are less observable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Trust in determining fair value is greatest for instruments categorized as Level 3.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following table is a summary of the inputs used in valuing the Trust's assets and liabilities carried at fair value (\$ in thousands):

Assets	Level 1	Level 2	Level 3	Other*	Total
US Equity	\$ 6,277,633	\$ 3,278	\$ 3,573	\$ -	\$ 6,284,484
Non-US Equity	6,231,740	1,750	2,309	-	6,235,799
Private Equity	-	-	-	2,332,462	2,332,462
Global Fixed Income	79,836	4,711,641	25,258	383,652	5,200,387
Global Real Assets	981,741	-	61	2,127,626	3,109,428
Absolute Return Mandates	-	-	-	1,947,131	1,947,131
Total investments	\$ 13,570,950	\$ 4,716,669	\$ 31,201	\$ 6,790,871	\$ 25,109,691
Swap contracts, at fair value	\$ -	\$ 8,490	\$ -	\$ -	\$ 8,490
Futures contracts**	7,216	-	-	-	7,216
Forward contracts	-	21,777	-	-	21,777
Foreign currency	24,485	-	-	-	24,485
Liabilities					
Swap contracts, at fair value	\$ -	\$ 36,054	\$ -	\$ -	\$ 36,054
Futures contracts**	3,687	-	-	-	3,687
Forward contracts	-	18,511	-	-	18,511
Written options***	-	6,959	-	-	6,959

* In accordance with FASB Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, investments in certain commingled funds and partnerships which are valued using the Net Asset Value ("NAV") practical expedient are not classified within the fair value hierarchy because of the redemption features inherent in the fund investment documents.

**Amounts represent cumulative gross gains and losses on open futures contracts, translated into US dollars, as of September 30, 2019. Only the current day's variation margin is included in Other Assets and Other Liabilities in the Statement of Assets and Liabilities.

***Included in Other Liabilities in the Statement of Assets and Liabilities.

For the year ended September 30, 2019, there were no significant changes to the Trust's fair value methodologies. Purchases and sales of Level 3 securities during the year were \$5.6 million and \$16.2 million, respectively. Certain US Equity, Non-US Equity, Global Fixed Income and Global Real Assets securities were transferred between the Level 2 and 3 categories due to changes in the availability of significant observable inputs in the valuation of these securities. For the year ended September 30, 2019, transfers into and out of Level 3 were \$14.8 million and \$4.6 million, respectively.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

The Trust uses a third party pricing agent to value its securities. When determining the reliability of third party pricing information, the Trust reviews the valuation policies of the pricing agent and conducts due diligence on the execution of the agent's pricing procedures. External investment managers reconcile valuations to the pricing agent on a monthly basis, and discrepancies are investigated and resolved.

Equity securities that are 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 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. If no reported sales price is available, fixed income securities are valued at prices furnished by an independent pricing service, which considers yield or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities.

The ability of issuers of the fixed income securities held by the Trust to meet their obligations may be affected by economic developments in a specific industry or region. The values of the securities can be significantly affected by changes in interest rates or in the financial condition of the issuer or market conditions generally. The Trust invests a portion of its assets in mortgage-backed securities and debentures. The value and related income of these securities is sensitive to changes in economic conditions, including delinquencies and/or defaults.

Commingled funds ("Funds"), which are not publicly traded, may include publicly-traded securities for which detailed holdings are reported to the Trust. Fair values of these Funds are determined after consideration of NAVs provided by the external investment managers. The valuation of these non-publicly traded securities held by Funds may involve estimates, appraisals, assumptions, and methods that are reviewed by management.

Private Debt, Private Equity and Real Estate limited partnership assets ("Partnerships") are valued by the Trust at fair value after consideration of NAVs provided by each Partnership's general partner. The valuation of these Partnerships may involve estimates, appraisals, assumptions, and methods that are reviewed by management.

As shown in the fair value hierarchy table in Note 3, the Trust relies on the NAV of certain Funds and Partnerships described above as a practical expedient to estimating their fair value. The NAVs that have been provided by investees are derived from the fair values of the underlying investments

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as of the reporting date. All investments for which NAV is used as fair value (a) do not have a readily determinable fair value pursuant to the guidance in ASU 2015-07 and (b) either prepare financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists the Trust's unfunded commitments to investments in Funds and Partnerships by major category (\$ in thousands):

<u>Asset Class</u>	<u>Strategy</u>	<u>Unfunded Commitments</u>	<u>Note</u>
US Equity	Includes passively managed funds tracking major US Equity indices	\$ -	(a)
Non-US Equity	Includes passively managed funds tracking major Non-US Equity indices	-	(a)
Private Equity	Includes Venture Capital, Leveraged Buyout, and Corporate Finance investment funds	1,100,619	(b)
Global Fixed Income	Includes US Investment Grade, High Yield, Private Debt, and Global Government Bond and Currency investment funds	333,711	(c)
Global Real Assets	Includes Commodities, Natural Resources, Private Real Estate and Real Estate Investment Trust investment funds	1,267,623	(d)
Absolute Return	Includes multi-asset class strategies that offer an attractive risk-adjusted return and have a low correlation with other Trust investments	105,114	(e)
		<u>\$ 2,807,067</u>	

- (a) Investments may have redemption restrictions that limit the days when redemption requests can be made to one or more days per month. Advance notice of up to 3 days may be required for redemption.
- (b) Private Equity investments are generally held for the life of the investment.
- (c) Private Debt investments are generally held for the life of the investment. All other investments can generally be redeemed on either a monthly or quarterly basis with the exception of one fund which may impose redemption fees, and one fund which may impose gate provisions.
- (d) Private Real Estate and Natural Resources investment funds are generally held for the life of the investment. Commodities fund investments can be redeemed on either a monthly or quarterly basis with up to 90 days advance notice.

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- (e) Absolute Return investments can generally be redeemed on either a monthly, quarterly or annual basis after the expiration of an initial lock-up period of up to three years.

4. DERIVATIVE INSTRUMENTS

As of September 30, 2019, the Trust invested in derivative contracts: primarily futures, forwards, options and swaps. Derivative contracts serve as components of the Trust's investment strategy as described in Note 2. The following tables summarize the value of asset and liability derivatives and related gains and losses as of and for the year ended September 30, 2019 (\$ in thousands).

<u>Risk Exposure</u>	<u>Location within Statement of Assets and Liabilities</u>	<u>Derivative Assets</u>	<u>Derivative Liabilities</u>
<i>Commodity</i>			
Purchased Options	Investments - at fair value	\$ 3,614	\$ -
Written Options	Other liabilities	-	(2,506)
<i>Commodity</i>			
Forward Contracts	Unrealized gain/loss on forward contracts	872	(619)
Commodity Swaps	Swap contracts, at fair value	1,238	(15,932)
Futures Contracts	Other assets	1,838	(1,418)
<i>Credit</i>			
Credit Default Swaps	Swap contracts, at fair value	216	-
<i>Currency</i>			
Purchased Options	Investments - at fair value	409	-
Foreign Currency Exchange Contracts	Unrealized gain/loss on forward contracts	20,905	(17,892)
<i>Equity</i>			
Total Return Swaps	Swap contracts, at fair value	1,139	(479)
<i>Interest Rate</i>			
Purchased Options	Investments - at fair value	3,698	-
Written Options	Other liabilities	-	(4,453)
Interest Rate Swaps	Swap contracts, at fair value	5,897	(19,643)
Futures Contracts	Other assets/liabilities	2,222	(83)

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<u>Risk Exposure</u>	Location within the Statement of Operations	
	Net change in unrealized gain (loss) from investments and foreign currency	Net realized gain (loss) from investments and foreign currency
<i>Commodity</i>		
Options Contracts	\$ 544	\$ 6,089
Commodity Forward Contracts	377	(537)
Commodity Swaps	(27,700)	(5,098)
Futures Contracts	-	(5,341)
<i>Credit</i>		
Options Contracts	3	125
Credit Default Swaps	(70)	696
<i>Currency</i>		
Options Contracts	(2,341)	(19,955)
Foreign Currency Exchange Contracts	189	8,732
<i>Equity</i>		
Total Return Swaps	408	(525)
<i>Interest Rate</i>		
Options Contracts	603	4,005
Interest Rate Swaps	(16,907)	(22,980)
Futures Contracts	-	1,722

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Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2019

The following table summarizes the long and short notional exposure of derivative contracts as of September 30, 2019 (\$ in thousands):

<u>Risk Exposure</u>	<u>Long Exposure</u>	<u>Short Exposure</u>
<i>Commodity</i>		
Purchased Options	\$ 1	\$ -
Written Options	-	71
Commodity Forward Contracts	2,142	2,063
Commodity Swaps	1,290	2,609
Futures Contracts	165,587	156,328
<i>Credit</i>		
Credit Default Swaps	52,421	50,566
<i>Currency</i>		
Purchased Options	227,617	-
Foreign Currency Exchange Contracts	1,551,451	1,586,337
<i>Equity</i>		
Total Return Swaps	21,684	18,997
<i>Interest Rate</i>		
Purchased Options	229,804	-
Written Options	-	183,242
Interest Rate Swaps	178,159	244,285
Futures Contracts	775,578	913,616

5. 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, approximately \$24.7 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2019, approximately \$1.8 billion was transferred to the Treasury. As defined in the

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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 approximately \$1.3 million in legal fees during the fiscal year ended September 30, 2019. 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.

Custodian — The Trust's custodian was also engaged to provide investment management transition services for a portion of Trust assets during the fiscal year ended September 30, 2019. The custodian credited \$45 thousand of commission charges related to these services. This amount is deducted from custodial fees in the Statement of Operations.

6. 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 6% 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, 2019, the Trust made contributions of approximately \$252 thousand to the Plan on behalf of the employees.

7. INDEMNIFICATIONS

In the ordinary course of business, the Trust may enter into contracts or agreements that contain indemnifications. Future events could occur that lead to the execution of these provisions against the Trust. The Trust's maximum exposure under these contracts or agreements is unknown. No such claims have occurred, nor are they expected to occur and the Trust expects the risk of loss to be remote.

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Notes to Financial Statements

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8. COMMITMENTS

Office Space Lease — In October 2012, the Trust entered into an eleven year operating lease agreement with respect to its principal office space in Washington, DC.

Remaining rental payment obligations relating to the lease for each of the next five years and thereafter are as follows:

<u>Fiscal Years Ending September 30</u>	<u>Amount</u>
2020	\$ 499,987
2021	510,001
2022	520,226
2023	530,655
2024	313,138
Thereafter	<u>-</u>
Total	<u>\$ 2,374,007</u>

Investments — The Trust has made contractual commitments to fund various investments. These investments typically have investment periods of five years and terms of ten years. The investment manager or general partner invests the committed dollars during the investment period and harvests the portfolio during the remainder of the term. The amounts of these commitments are disclosed in the table in Note 3.

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9. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust for the fiscal year ended September 30, 2019.

**October 1, 2018 —
September 30, 2019**

FINANCIAL RATIOS ⁽¹⁾:

Expense to average net assets	0.27%
Net investment income to average net assets	1.66%

TOTAL RETURN ⁽²⁾ — Total return 2.82%

⁽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 in the table 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.

10. TRUST DIVERSIFICATION

Since its inception in 2002, the Trust has deployed assets received from Treasury into a diversified and balanced portfolio of US and Non-US equity and US and Non-US fixed income securities. Over time, the Trust has furthered that diversification by allocating a percentage of the portfolio to private equity, private debt, real estate, and commodities. As mandated by the Act, the Trust manages its concentration of investment in any asset class, type of security or market sector. The Trust's policy of broad diversification is intended to protect its assets from disproportionate market shocks in volatile periods.

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Notes to Financial Statements

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The following table is a summary of the Trust's concentration of investments by geographic region (\$ in thousands):

<u>Geographic</u> <u>Region</u>	<u>US</u> <u>Equity</u>	<u>Non-US</u> <u>Equity</u>	<u>Private</u> <u>Equity</u>	<u>Global Fixed</u> <u>Income</u>	<u>Global Real</u> <u>Assets</u>	<u>Absolute</u> <u>Return</u>	<u>Total</u>
North America	\$ 6,284,484	\$ 554,731	\$ 1,799,570	\$ 3,959,863	\$ 2,589,626	\$ 1,144,971	\$ 16,333,245
Europe	-	2,700,858	123,245	460,760	210,315	-	3,495,178
Asia	-	2,451,804	-	257,437	200,496	-	2,909,737
South America	-	164,501	-	98,640	-	-	263,141
Australia	-	189,627	-	26,596	10,722	-	226,945
Central America	-	38,554	-	121,815	-	-	160,369
Africa	-	66,608	-	39,571	-	-	106,179
Multi-Region / Global	-	69,116	409,647	235,705	98,269	802,160	1,614,897
	<u>\$ 6,284,484</u>	<u>\$ 6,235,799</u>	<u>\$ 2,332,462</u>	<u>\$ 5,200,387</u>	<u>\$ 3,109,428</u>	<u>\$ 1,947,131</u>	<u>\$ 25,109,691</u>

11. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance in this ASU, which resulted from the FASB's disclosure effectiveness project, removes or modifies certain fair value disclosures for non-public entities. Reporting entities may remove or amend the disclosures no longer required immediately, with retrospective application. The Trust has elected immediate adoption of this ASU.

12. SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through November 15, 2019, the date these financial statements were issued, and determined that there were no subsequent events requiring adjustments to or disclosure in the financial statements.
