NRRIT

National Railroad Retirement Investment Trust

Annual Management Report for Fiscal Year 2007
Required by Public Law 107-90,
The Railroad Retirement and Survivors' Improvement Act of 2001

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ANNUAL MANAGEMENT REPORT OF THE NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

APPENDICES

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1) Introductory Statement

Fiscal year 2007 was a year of continued growth for the National Railroad Retirement Investment Trust ("Trust"). It was also a year of structural change in the investment operations of the Trust. During this year, the Trust completed the asset allocation review begun in fiscal year 2006 and took steps to implement a new plan architecture. This new plan architecture expands the Trust's policy benchmark to add three additional macro asset classes for continual investment and up to 18 micro-asset classes for opportunistic investments and further defines asset allocation across a spectrum of various risk levels. In addition, the new structure targeted a certain percentage of Trust assets for investment in global balanced mandates under which investment managers make continual selections among asset classes. The new plan structure also incorporates budgets for metrics such as excess return, tracking error, and cost, for all types of portfolio activity. Details of the new plan architecture are discussed in Section 3 of this report.

The net asset value of Trust-managed assets increased from $29.4 billion on October 1, 2006 to $32.7 billion on September 30, 2007. This amount is net of $1.4 billion that the Trust transferred back to the US Treasury for railroad retirement (tier 2) benefit payments during the fiscal year. The Trust achieved a 16.38% rate of return on the investment of its assets for the year net of fees, close to the composite benchmark for Trust-managed assets which returned 16.41% for the year.

At the beginning of this fiscal year, total railroad retirement assets (Trust-managed assets and reserves maintained in the two railroad retirement system accounts at the Treasury) equaled $30.6 billion. As of September 30, 2007, total railroad retirement system assets equaled $34.0 billion.

The Board of Trustees met eight times during the course of the year to consider the various investment and management issues that are discussed in this sixth Annual Management Report. In addition, the Board's Audit and Administrative Committees met periodically to consider matters within their areas of responsibilities. This report and its various appendices provide information on the operations and financial status of the Trust for the fiscal year, including the report of the audit of the financial statements as required by the Trust's enabling statute.

2) Operations of the Trust: Administrative Matters

a) Trustee Update

In February 2007, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2007. Railroad management appointed William Sparrow, CSX Corporation (retired), to a three-year term that expires on January 31, 2010. Railway labor unions appointed Walter A. Barrows, International Secretary-Treasurer, Brotherhood of Railroad Signalmen, to a new three-year term that expires on January 31, 2010. In addition, the Trustees selected Mr. James A Hixon, Executive Vice President - Law and Corporate Relations, Norfolk Southern Corporation, as the Chair of the Board of Trustees for the period February 1, 2007-January 31, 2008.

Mr. Sparrow and Mr. Barrows joined the following five members of the Board: *For terms expiring on January 31, 2008:* Mr. Hixon; Joel Parker, Special Assistant to the President and International Vice President, Transportation Communications International Union (TCU/IAM); and John W. MacMurray, the Independent Trustee. *For terms expiring on January 31, 2009:* Linda Hurt, Assistant Vice President-Finance and Treasurer, Burlington Northern Santa Fe Corporation and BNSF Railway Company; and George J. Francisco, Jr., President, National Conference of Firemen & Oilers, SEIU.

b) Coordination with Federal Government Agencies

Throughout the fiscal year, the Trust maintained regular communications with the Railroad Retirement Board ("RRB") and the Treasury on all matters relating to the transfer of monies between the various RRB accounts at the Treasury and the Trust. In addition, the Trust transmitted all monthly data required pursuant to the Memorandum of Understanding ("MOU") entered into in 2002 with these entities and the Office of Management and Budget ("OMB"). The MOU outlines the budgetary, transfer, accounting, and financial reporting responsibilities for assets held by the Trust and railroad retirement system assets held within the Treasury. The MOU requires the Trust to report on a monthly basis: receipt and disbursement of funds, purchases and sales of assets, earnings and losses on investments, value of investments held, and administrative expenses incurred.

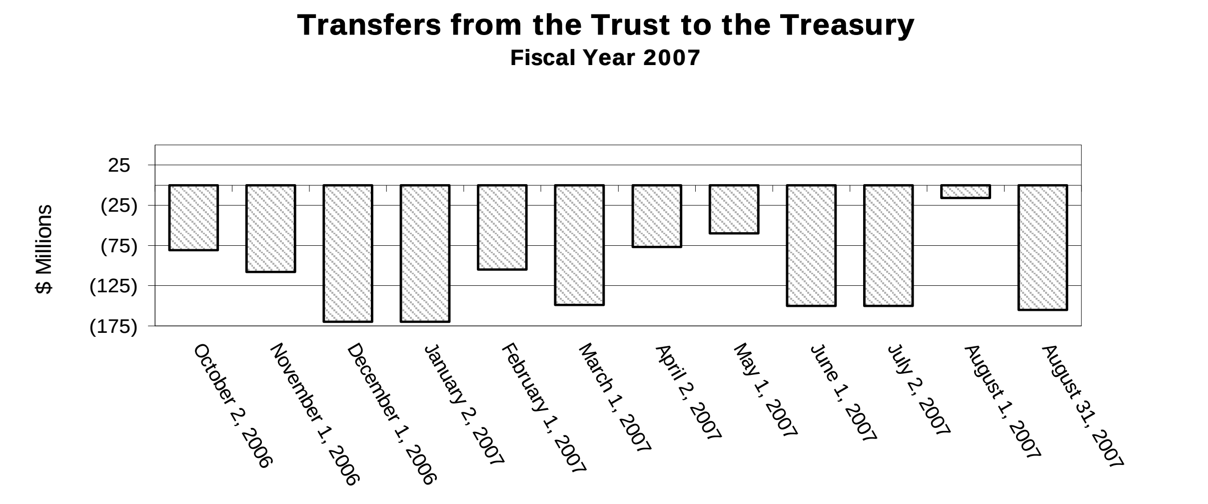
During fiscal year 2007, the Trustees, the Chief Investment Officer and Trust legal counsel held periodic meetings and telephone conferences with the Members of the RRB and its General Counsel to review the investment and administrative activities of the Trust. The senior staff of the two organizations and Trust legal counsel met after each meeting of the Trust Board, and the Trustees and the Members of the RRB met twice during the year. In addition, the Trust prepared brief Quarterly Updates that were transmitted to the Congressional committees of jurisdiction and posted on the RRB website to be available to all other interested parties.

During 2007, the Trust also consulted with the RRB on its 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 the year-end Financial Report of the United States. In addition, the Trust also provided audited net asset data to the RRB through the end of the calendar year for use in the preparation of the RRB's annual Statement of Social Insurance.

c) Transfers to and from the Treasury

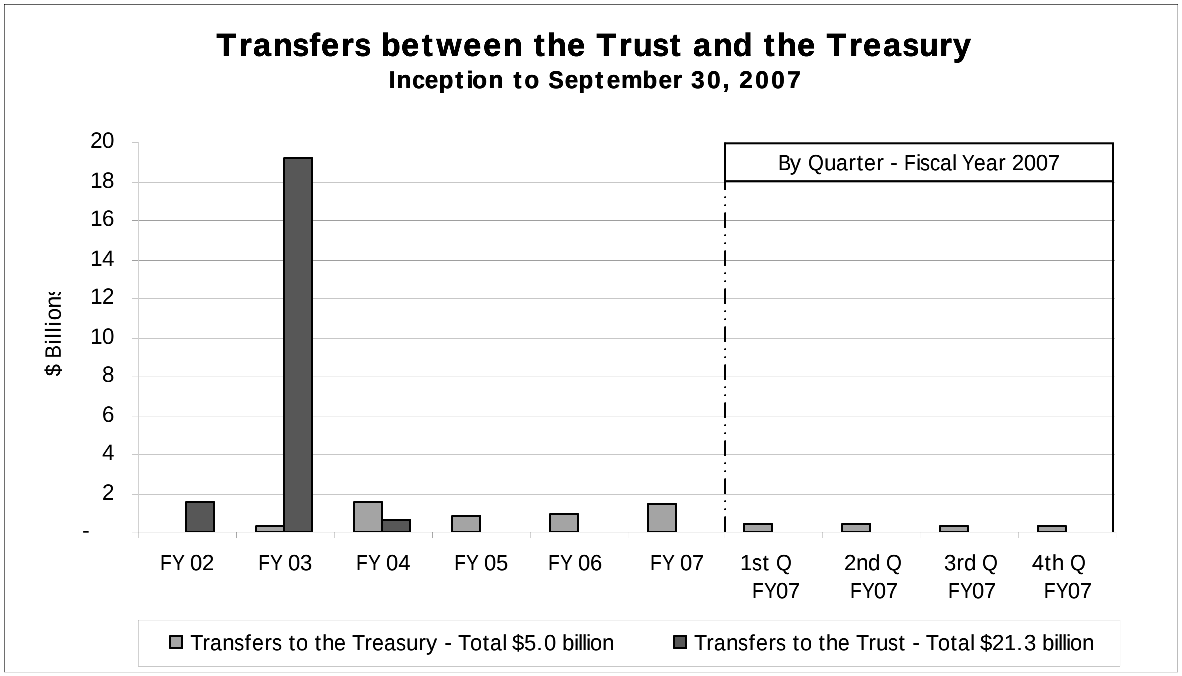
The Railroad Retirement and Survivors' Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received $21.3 billion of railroad retirement system funds. The Trust has received no transfers from the Treasury after fiscal year 2004. The funds transferred to the Trust through fiscal year 2004 consisted primarily of assets transferred from the Railroad Retirement Account ("RRA"), and a smaller amount from the Social Security Equivalent Benefit (SSEB) Account. The RRA assets were invested in a diversified portfolio in accordance with the Trust's *Investment Guidelines* while the funds received from the SSEB Account were invested in federal securities as required in the Act.

The Act also provides for the transfer from the Trust to the Treasury amounts necessary to pay RRA benefits under the Act. During fiscal year 2007, the Trust transferred a total of $1.39 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 2007.

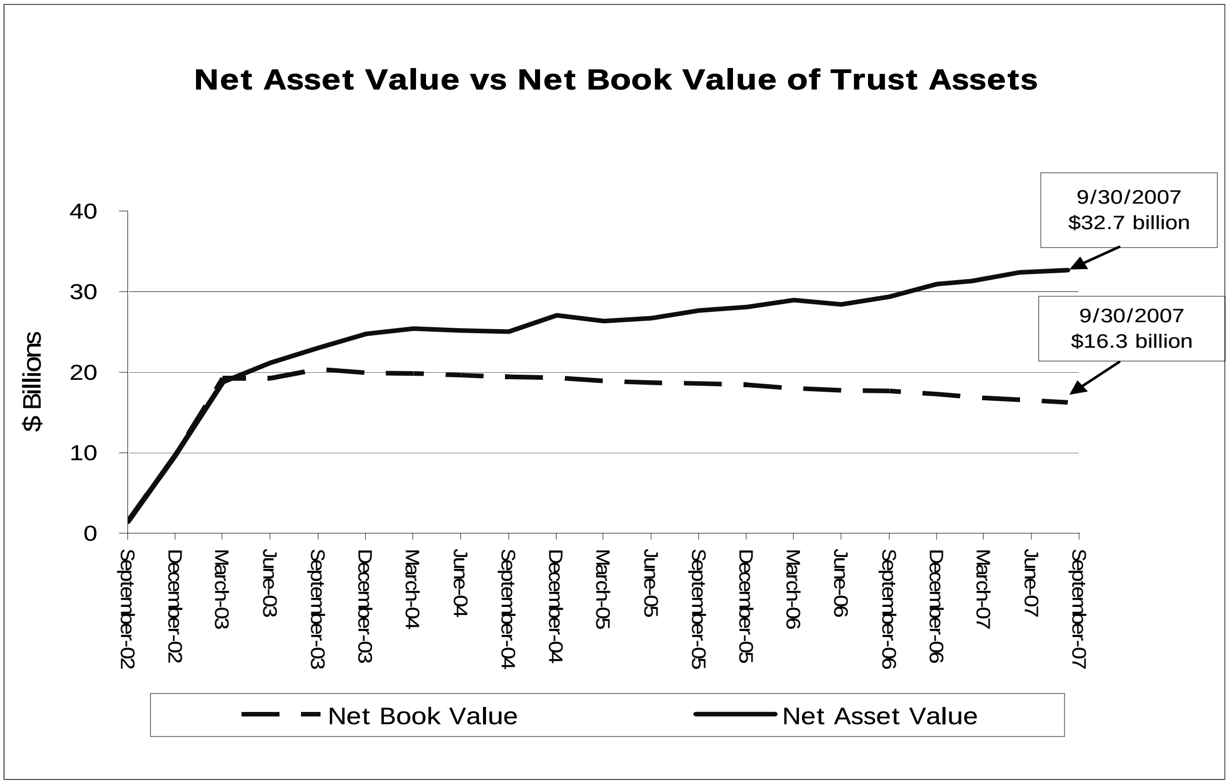


* No transfer was required in September 2007. The transfer for September 2007 was made on August 31st.

Summary of transfers: From its inception in February 2002 to September 30, 2007, the Trust received $21.3 billion from the Treasury and transferred $5.0 billion back to the Treasury. The net book value of funds received from the Treasury since inception, therefore, is $16.3 billion. The following graph displays the transfers between the Trust and Treasury for each fiscal year since inception and the quarterly cash transfers for fiscal year 2007.



The assets received by the Trust have been invested in a diversified multi-asset class portfolio in accordance with the Trust's investment policy. This diversification of assets has allowed the Trust's assets to grow beyond their original book value. As of September 30, 2007, the net asset value of the Trust-managed assets totaled $32.7 billion, representing an increase of $16.4 billion above the net book value of assets transferred to the Trust for investment. The following chart reflects the growth of the Trust's assets, comparing the net book value of assets received by the Trust to the net asset value of those assets at the end of each quarter since September 30, 2002.



d) Account Benefits Ratio

The funds available to pay railroad retirement benefits and administrative costs include assets held in the RRA and the SSEB Account and assets held by the Trust for investment. Section 204 of the Act requires that amounts in the RRA and assets held by the Trust be included in the annual calculation of the account benefits ratio (“ABR”). The ABR is the ratio of the fair market value of the assets in the RRA and the Trust as of the close of the fiscal year to the total benefits and expenses paid in that fiscal year. The average account benefits ratio ("AABR"), the 10-year average of the ABR, is used to determine the tier 2 tax rates for railroad employers and employees.

As provided in the Act, the RRB computed the account benefits ratio for fiscal year 2007 and certified the ratio to the Secretary of the Treasury on October 29, 2007. The Secretary determined the AABR for fiscal year 2007 and on December 6, 2007 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2008. Copies of the RRB certification letter and the Treasury notice are contained in Appendix H. The account benefits ratio increased from 7.61 for fiscal year 2006 to 7.94 for fiscal year 2007. The ten-year average account benefits ratio increased from 6.6 for fiscal year 2006 to 6.9 for fiscal year 2007.

e) Staff Update

During fiscal year 2007, the Trust adopted a new investment plan architecture. Along with this new plan architecture, the Trust re-aligned certain existing staff positions to ensure coverage of all new macro and micro asset class investment activity as well as new functions such as risk management. Description of existing staff positions which were re-aligned and new positions which were added follow.

In the public markets area, Clayton Viehweg was named Director of Global Fixed Income. On April 9, 2007, Gary Green was hired by the Trust as Director of US Equity. Prior to joining the Trust, Mr. Green was a Senior Investment Analyst/Associate Portfolio Manager with Clark Enterprises, Inc. where he was responsible for the selection and monitoring of investments for the firm's short and long-term portfolios. By the end of fiscal year 2007, the Trust had concluded its search for a Managing Director of Global Public Markets, and an Investment Analyst for public markets. Individuals for both of these positions joined the Trust in the first quarter of fiscal year 2008.

In the private markets area, David J. Locke was named Managing Director of Global Private Markets. Working with Mr. Locke in the private markets area are Michael A. Reeves, named Director of Private Markets, and Caixia Ziegler, named Director of Global Real Assets. Patrick O'Brien joined the Trust on March 19, 2007 as Investment Analyst – Private Markets. Prior to joining NRRIT, Mr. O'Brien worked at Beers & Cutler Consulting providing management consulting, accounting system implementation, and financial reporting advisory services. On April 2, 2007, Barry Kaplan joined the Trust as a Senior Investment Analyst - Private Markets. Prior to joining the Trust, Mr. Kaplan worked for Nuveen Investments where he was involved in the development and execution of product strategies in support of their closed-end fund business.

On November 1, 2006, Taekyung Han joined the Trust as Investment Analyst – Program Measurement and Analysis. In this position, Mr. Han supports the Trust by evaluating performance returns and developing quantitative tools and metrics for analyzing the Trust's securities holdings. Prior to joining the Trust, Mr. Han worked in the Capital Markets Group at Cambridge Associates, an investment consulting firm whose primary clients are endowments and foundations.

In her expanded role of supporting the operations of the Trust, Maureen McCarthy was named Senior Administrative Advisor. On October 28, 2006, Barbara Billips joined the Trust as Office Manager. Prior to joining the Trust, Ms. Billips worked at the Credit Union National Association where she was Executive Assistant to the Senior Vice President, Governmental Affairs. By the end of the fiscal year, the Trust concluded its search for a financial analyst to work with the operations group. The financial analyst joined the Trust in the first quarter of fiscal year 2008.

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

3) Operations of the Trust: Investment Matters

a) Investment Plan: Structure and Implementation

i) Evolution of the Asset Class Structure, FY 2002-2006

NRRIT's asset class structure has evolved and developed over the five years since September 2002 from a starting portfolio which was all government securities, to a three-asset-class structure, and finally to a structure which is more fully diversified across geography, capitalization size, style, investment quality and many other characteristics. NRRIT's *Investment Guidelines* specify not just the target policy allocation, but ranges around the neutral point for each asset class, as well as rules for rebalancing back to target allocations or ranges when market valuations change.

At inception, Trustees worked with an outside investment consultant to develop NRRIT's first asset allocation policy. This initial policy established target weights for exposure to the major asset classes, as follows:

NRRIT-Only Asset Allocation Policy, 2002-2006

US Equity	47%
Non-US Equity	21%
Fixed Income	32%

In order to implement this asset allocation, as NRRIT transitioned away from its initial all-cash portfolio, the Trust's assets were invested first in equity index funds, using the Wilshire 5000 for US equity exposure and the MSCI World Ex-US Index for non-US equity exposure. This took place from September 2002 through February 2003. Starting in February 2003, the Trust added fixed income exposure in the Lehman Brothers Aggregate index, completing the allocation of funds to all components of the strategic policy benchmark. The initial *Investment Guidelines* statement also contemplated allocations to both private equity and high yield debt. The high yield allocation was not immediately implemented due to the paucity of options for indexation in that asset class, and those assets were instead invested in the Lehman Brothers Aggregate fixed income index. NRRIT began making commitments to private equity in 2003. Assets targeted for private equity commitments were invested in the Wilshire 5000 US equity index pending investment in specific private equity vehicles.

Over the next three years, the Trust subdivided its US equity index exposure into large-cap and small-cap. More importantly, NRRIT began moving assets from indexed to active management, progressing from indexed to enhanced to active to concentrated strategies. This deployment further subdivided NRRIT's asset class exposure, adding growth and value styles in US equities. The Trust carried out studies of investment in additional areas including real estate, commodities and hedge funds. While investment in these additional asset classes was approved by the Board and added to the *Investment Guidelines* in July 2006, these asset classes were not immediately funded.

ii) Fiscal Year 2007 - Asset Class Restructuring

During the last quarter of FY 2006 and the beginning of FY 2007, NRRIT undertook a detailed review of the Trust's asset allocation and Trustees approved a new plan structure intended to deliver stronger performance across a range of capital market conditions. This structure expanded the policy benchmark by adding additional asset classes and further defined asset allocation across a spectrum of active risk levels. The new structure seeks to incorporate best peer plan practices, enable NRRIT to evaluate more sophisticated investment strategies employed by skilled external managers, and establish new governance policies and procedures to manage risk. A key goal of the new structure is to better position the Trust to take advantage of less efficient sectors of the global capital markets.

This structure includes a number of new features:

- *New policy benchmark:* The new strategic policy benchmark includes six macro asset classes rather than the prior three.

Additional asset classes: The structure also provides options to use an additional 18 micro-asset classes. This increased diversification is intended to provide the Trust with a broader menu of opportunities to provide both strong performance and greater stability in volatile markets. The lower correlations of the return streams in many of the new micro-asset classes versus the larger and more familiar asset classes are also intended to help reduce overall Trust volatility.

- *Greater return opportunities at same volatility level:* The new benchmark is structured to maintain projected volatility levels at or below that of the previous policy benchmark.

- *Continuum of management styles and active risk levels from passive to active:* The new structure explicitly incorporates a range of management styles, from passive (indexation) to fully active management and illiquid alternative styles. Each style has a target neutral weight; depending on prevailing market conditions, assets may be shifted from one area to another in accordance with the Trust's rebalancing policy to control Trust risk, optimize return and meet cost targets.

- *Global Tactical Asset Allocation (GTAA):* A percentage of Trust assets are invested in global balanced mandates, under which investment managers make not just security selection decisions *within* asset classes but also asset allocation decisions *among* asset classes.

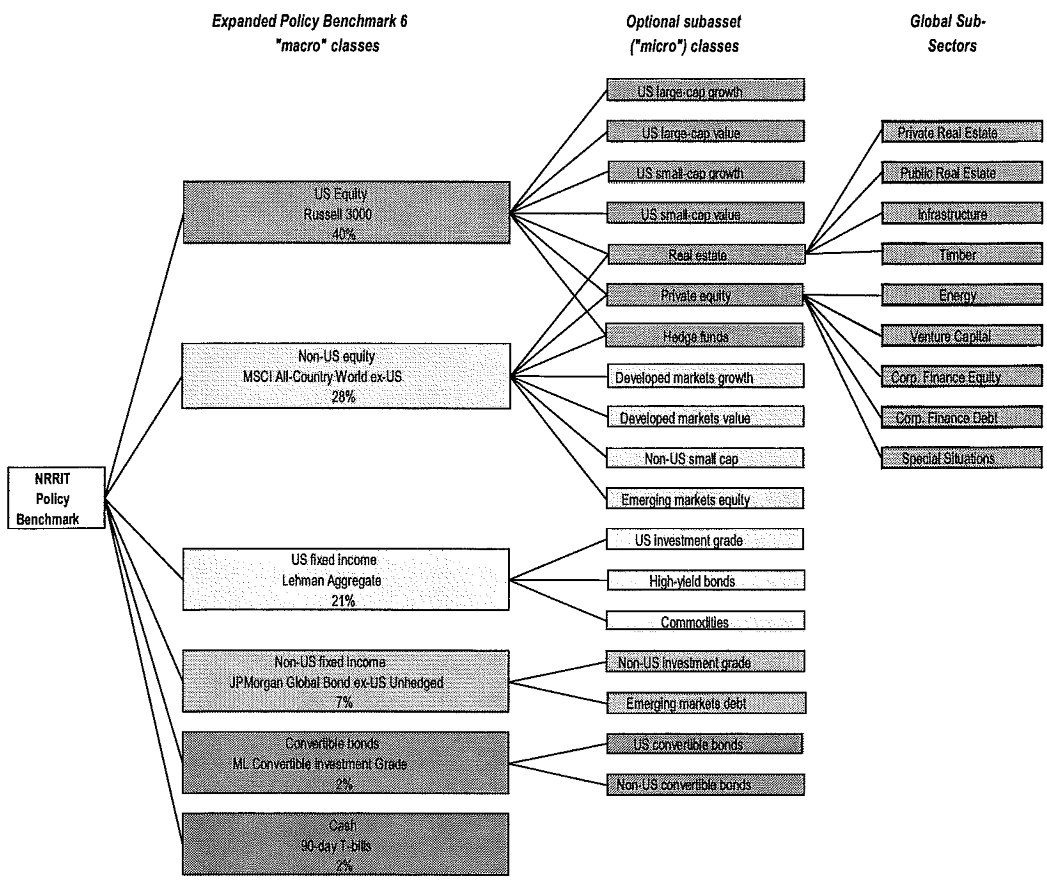
The revisions to NRRIT's plan architecture have been undertaken in two stages. First, the menu of asset classes was expanded: Three asset classes were added to the policy benchmark to create a new strategic policy benchmark comprised of six macro asset classes, as shown below. The Trust constructed the macro-asset class portfolios using eighteen micro-asset classes which can be used as market conditions warrant. Around the neutral weights for each approved macro and micro-asset class are ranges within which Trust exposures must remain.

Current NRRIT Policy Benchmark

Asset Class	**Target**	**Range**
US Equity	40%	35-45%
Non-US Equity	28%	23-33%
US Fixed Income	21%	16-26%
Non-US Fixed Income	7%	2-12%
Convertibles	2%	0-5%
Cash	2%	0-5%

The following chart depicts how the new strategic policy benchmark contained in the *Investment Guidelines* expands the asset class menu to provide NRRIT with a broader range of market exposures.

Expanded Policy Benchmark Showing Macro and Micro Asset Classes



In the second stage of implementation, the menu of active risk implementation options was expanded. In addition to the expanded asset class menu, the portfolio has been diversified across a spectrum of active risk. The portfolio structure can be thought of as a matrix, with asset classes along the vertical axis and active risk levels along the horizontal axis. Allocating dollars across this matrix will directly affect the overall Trust setting for active exposure in the global capital markets.

iii) FY 2007: Implementation of New Plan Architecture

Phase 1 implementation: The first phase of implementation of the new plan architecture took place during the first quarter of FY 2007. Phase 1 provided NRRIT with exposure to the more diversified asset class menu in the new structure, diversifying the Trust's market exposures, either by establishing new index exposures or by realigning existing indexed investments.

Phase 2 implementation: The second phase of implementation of the new plan architecture which began in the second quarter of FY 2007 involves building out the second dimension of the new structure, the full spectrum of portfolio management approaches to active risk. In Phase 2, assets move from passive to active management, populating each of the cells or "bins" in the new structure. During FY 2007, NRRIT hired 21 public-markets managers in asset classes including US equity, emerging markets equity, non-US fixed income, emerging markets fixed income, convertibles, commodities and currency overlay.

Global balanced managers: The new plan architecture allocated a certain percentage of Trust assets to GTAA managers. These are mandates under which investment managers make not just security selection decisions *within* asset classes but also asset allocation decisions *among* asset classes. Each manager is constrained by NRRIT's overall investment policy allocation ranges, but has the authority to move within and between them.

Private-markets implementation: During FY 2007, NRRIT continued to make significant progress towards its implementation objectives in the private asset classes. The Trustees approved 14 new private equity fund investments during the fiscal year, bringing the total number of partnerships in the private equity portfolio to 36.

In addition, the Trustees also approved four new real estate fund investments during FY 2007, implementing NRRIT's first investments in the private segment of the real estate market. The new fund investments bring the total number of real estate managers to seven.

iv) Proxy voting policy

The Trust maintains a general proxy voting policy which delegates the voting of Trust proxies to its investment managers as fiduciaries of the Trust. It also details specific responsibilities of those managers in the voting of proxies, makes clear the responsibility of investment managers to coordinate proxy-voting with the Trust's custodian, and allocates to the Trust itself responsibility for monitoring, reviewing and reporting on the implementation of the proxy voting policy. A copy of the proxy voting policy is in Appendix F.

As required by the proxy voting policy, during fiscal year 2007 those managers who had proxy-voting responsibilities were asked to certify that they had voted all proxies in accordance with the policy and solely in the interest of the participants and beneficiaries of the Trust. After the end of the fiscal year, staff reviewed and reported to the Board of Trustees regarding each manager's proxy voting record with respect to Trust securities.

b) Investment Performance

While most railroad retirement system assets are managed by the Trust, some assets remain in Treasury accounts managed by the RRB. Approximately 3.8% of the total, or $1.3 billion out of $34.0 billion as of September 30, 2007, is held in the form of reserves that are invested by the RRB in a particular type of federal government security called Par Value Specials. These reserves are replenished as needed through transfers from the Trust to the Treasury. In determining its asset allocation, the Trust takes into account these reserves, and sets its investment benchmarks accordingly. The following discussion focuses on the investment performance of Trust-managed assets only.

Overall performance: For fiscal year 2007, the investment return on Trust-managed assets, net of fees was 16.38%. The Trust's composite benchmark returned 16.41%. For fiscal year 2007, NRRIT's exposure to the new benchmark was implemented during the fourth quarter of calendar 2006 and became effective as of January 1, 2007. As such, the policy benchmark for performance measurement combines three months of the prior benchmark, October 1, 2006 - December 31, 2006, with nine months of the new benchmark, January 1, 2007 - September 30, 2007. The policy benchmark return on the prior investment strategy was 14.93% for fiscal year 2007. This compares to the 16.41% policy benchmark return on the new investment strategy. The increase of 1.48% in the policy benchmark return reflects the benefit of the broader asset class diversification.

4) Audit Committee

The Audit Committee met quarterly during fiscal year 2007. The Audit Committee provided oversight and monitoring of the fiscal year 2006 audit, and considered the Deloitte & Touche Audit Management Letter for the previous fiscal year. With respect to the recommendation contained in the Audit Management Letter, the Trust implemented the general ledger and financial reporting system to improve efficiency of operations and reduce the risk of manual error in the preparation of Trust financial statements.

The Committee approved revisions to the Audit Committee Charter, to reflect the changing nature of the corporate governance landscape over the past several years and incorporate a number of best practices implemented by public companies as a result of the Sarbanes-Oxley Act of 2002.

In addition, the Trust continued to refine its pricing policies and procedures to address recently issued Financial Accounting Standards Board ("FASB") accounting requirements relating to fair value measurements. These policies and procedures continue to evolve as further guidance from the FASB is issued. For the periods beginning on or after November 15, 2007, the Trust will be required to comply with FASB Statement No. 157 surrounding fair value measurements and disclosures.

The Audit Committee engaged Deloitte & Touche LLP to perform an interim audit of the Trust's Schedule of Investments in Securities and Statement of Assets and Liabilities as of December 31, 2006. The scope of this audit was expanded from the previous year's audit, which provided assurance only on certain specified elements of the balance sheet. The completion of the full balance sheet audit during fiscal year 2007 provided the RRB with an independent audited net asset balance for the Trust, allowing the RRB to complete its annual Statement of Social Insurance using audited inputs from the Trust. This expanded scope engagement will continue to be an annual recurring requirement for the Trust in future years.

Finally, during the fiscal year, the Audit Committee provided oversight of the financial statement audit process in accordance with its fiduciary duty to the Trust. The Trust issued its audited financial statements within 45 days of its fiscal year end, allowing the RRB to include the Trust's net assets in its financial statements and meet its financial reporting deadline.

5) Internal Accounting and Administrative Controls

During fiscal year 2007, the Trust's staff continued to improve the system of internal accounting and administrative controls designed to ensure the safekeeping and proper accounting of investments, and the efficient operation of the Trust activities.

Safekeeping: The Trust's assets are held in safekeeping by its primary custodian, The Northern Trust Company (Northern Trust). Assets represented by commingled funds are held with the custodian of each respective fund. As the Trust continues to move from indexation to separately-managed accounts, the custody of those assets will be transferred from the sub-custodian to the Trust's primary custodian.

Accounting: Northern Trust provides the Trust with a full accounting and performance record of all transactions involving Trust assets. Reconciliations of the primary custodian records to the investment manager's records are performed monthly. The Trust has established a process to review the monthly reconciliations to ensure that all transactions are recorded properly on the respective books. Financial data from the custodian bank form the basis for the Trust's various required reports and financial statements.

Operations: During fiscal year 2007, the Trust completed the implementation of a general ledger and financial reporting software platform. This system interfaces with the custodian's books and records and allows for the expedited preparation of financial statements.

In addition, the Trust continued to refine the pricing policies and procedures to address recently issued Financial Accounting Standards Board ("FASB") accounting requirements relating to fair value measurements. These policies and procedures continue to evolve as further guidance from the FASB is issued. During fiscal year 2008, the Trust will be developing procedures to ensure compliance with the additional reporting and disclosure requirements of FASB Statement No. 157 surrounding fair value measurements and disclosures.

6) Financial Status of the Trust

a) Statement of Cash Flows

During fiscal year 2007, the Trust continued to finance cash transfers of railroad retirement system assets to the Treasury for beneficiary payments. These transfers totaled approximately $1.4 billion during fiscal year 2007. The net amount transferred to the Trust from the Treasury since inception is $16.3 billion.

b) Financial Statements and Independent Auditors Report

National Railroad Retirement Investment Trust

Financial Statements as of and for the Fiscal Year Ended September 30, 2007 and Independent Auditors' Report

National Railroad Retirement Investment Trust

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
National Railroad Retirement Investment Trust:

We have audited the accompanying statement of assets and liabilities of the National Railroad Retirement Investment Trust (the "Trust"), including the condensed schedule of investments, as of September 30, 2007 and the related statements of operations, changes in net assets, and the financial highlights, for the year then ended. These financial statements and financial highlights are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Trust as of September 30, 2007, the results of its operations, changes in its net assets, and financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

November 15, 2007

National Railroad Retirement Investment Trust

Statement of Assets and Liabilities
As of September 30, 2007
($ In thousands)

Assets		
Investments in Securities - At fair value (cost, $32,305,975)	$	35,555,858
Cash and Cash Equivalents (including restricted cash of $2,853)		474,407
Cash Denominated in Foreign Currency - At fair value (cost, $19,887)		20,251
Receivable for Investments Sold		615,245
Interest Receivable		53,427
Dividends Receivable		15,626
Unrealized Gain on Swap Contracts		47,677
Unrealized Gain on Foreign Currency Exchange Contracts		32,051
Variation Margin Receivable		112
Other Assets		4,123
Total Assets		36,818,777
Liabilities		
Obligation to Return Securities Lending Collateral		2,363,524
Payable for Investments Purchased		1,701,162
Unrealized Loss on Swap Contracts		10,194
Accrued Management Fees		27,861
Unrealized Loss on Foreign Currency Exchange Contracts		46,906
Options Written - At fair value (premiums received, $2,738)		3,179
Variation Margin Payable		95
Other Liabilities		1,848
Total Liabilities		4,154,769
Net Assets	$	32,664,008
Analysis of Net Assets		
Net Assets Contributed to the Trust	$	16,264,954
Accumulated Net Realized Gain on Investments		12,007,755
Accumulated Net Unrealized Gain on Investments		3,080,079
Accumulated Net Investment Income		1,311,220
Total Net Assets	$	32,664,008

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

National Railroad Retirement Investment Trust

Condensed Schedule of Investments
As of September 30, 2007
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)		Value
US Equity			
Common Stocks			
Financial Services, 4.34%			
Citigroup, Inc.	2,739	$	127,846
JP Morgan Chase & Co.	2,148		98,429
Bank of America Corporation	1,899		95,440
Goldman Sachs Group, Inc.	280		60,639
Other	-		1,035,544
Total Financial Services (Cost, $1,363,955)			1,417,898
Information Technology, 3.57%			
Microsoft Corporation	3,730		109,894
Hewlett-Packard	1,699		84,610
IBM	683		80,491
Other	-		891,981
Total Information Technology (Cost, $1,028,602)			1,166,976
Consumer Discretionary, 2.71% (Cost, $884,578)	-		885,369
Health Care, 2.54%			
Pfizer, Inc.	4,303		105,124
Other	-		723,420
Total Health Care (Cost, $772,462)			828,544
Industrials, 2.24%			
General Electric Company	2,225		92,127
Other	-		640,618
Total Industrials (Cost, $622,044)			732,745
Energy, 2.21%			
Exxon Mobil Corporation	1,948		180,337
Chevron Corporation	1,017		95,137
ConocoPhillips	883		77,482
Other	-		369,560
Total Energy (Cost, $525,735)			722,516
Consumer Staples, 1.57% (Cost, $470,548)	-		513,160

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

National Railroad Retirement Investment Trust

Condensed Schedule of Investments
As of September 30, 2007
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)		Value
Telecommunications, 0.91%			
AT&T Inc.	2,263	$	95,749
Verizon Communications	1,458		64,541
Other	-		135,484
Total Telecommunications (Cost, $232,984)			295,774
Materials, 0.80% (Cost, $228,652)	-		261,882
Utillities, 0.79% (Cost, $220,478)	-		258,368
Other Equity, 0.01% (Cost, $1,142)	-		1,305
Total Common Stocks, 21.69% (Cost, $6,351,180)			7,084,537
Unit Trusts			
BGI Russell 2000 Value Fund	35,586		1,032,166
Northern Trust Russell 1000 Growth Equity Index Fund	3,610		959,071
Northern Trust Russell 1000 Value Equity Index Fund	1,058		957,788
BGI Russell 2000 Growth Fund	40,143		745,803
UBS Large Cap Equity Collective Fund	1,787		356,489
Goldman Sachs Collective Trust Structured Total Market Fund	31,537		309,374
Mellon Daily Valued Active Index Plus Fund	648		125,744
UBS US Large Cap Equity Growth Collective Fund	183		63,860
Other	-		42,397
Total Unit Trusts, 14.06% (Cost, $4,335,125)			4,592,692
Other US Equity Securities (a)			
Wellington Trust Company Real Estate Portfolio	3,109		104,209
Other	-		496,377
Total Other US Equity Securities, 1.84% (Cost, $583,545)			600,586
Total US Equity, 37.59% (Cost, $11,269,849)			$12,277,815

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

National Railroad Retirement Investment Trust

Condensed Schedule of Investments
As of September 30, 2007
($ In thousands)

Equity	Number of Units, Shares or Par Value (000)		Value
Non US Equity			
Unit Trusts			
BGI EAFE Equity Value Index Fund	179,014	$	2,072,013
Northern Trust Emerging Markets Index Fund	114,063		1,646,960
Northern Trust Developed Int'l Small Cap Index	133,486		1,569,792
BGI EAFE Growth Index Fund	92,414		1,538,891
BGI MSCI Equity Index Fund	4,837		351,594
Goldman Sachs Structured Int'l Country Neutral Fund	23,782		238,294
UBS Global (ex-US) Equity Collective Fund	339		224,253
Blenheim Commodity Fund	59		141,919
Newton Capital Management EAFE Plus Fund	6,997		87,156
Mellon International Stock Index Fund	214		82,199
Other	-		110,150
Total Unit Trusts, 24.69% (Cost, $6,638,278)			8,063,221
Common Stocks			
United Kingdom, 1.14% (Cost, $319,405)	-		349,931
Japan, 1.13% (Cost, $352,000)	-		372,241
Other Common Stock (Cost, $1,282,386)	-		1,600,271
Total Common Stocks, 7.11% (Cost, $1,953,791)			2,322,443
Other Non US Equity Securities (a)			
Blenheim Commodity Fund, Ltd. Class B, Series 5	135,000		143,626
Other	-		226,753
Total Other Non US Equity Securities, 1.13% (Cost, $343,607)			370,379
Total Non US Equity, 32.93% (Cost, $8,935,676)		$	10,756,043
Private Equity			
Warburg Pincus Private Equity IX, LP	48,585	$	55,836
Other	-		465,076
Total Private Equity Investments, 1.59% (Cost, $464,995)			520,912
Total Private Equity, 1.60% (Cost, $464,995)			520,912
Total Equity, 72.11% (Cost, $20,670,520)		**$**	**23,554,770**

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

National Railroad Retirement Investment Trust

Condensed Schedule of Investments
As of September 30, 2007
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)	Value
Unit Trusts		
BGI US High Yield Bond Index Fund, Class A	97,819	$ 1,452,589
BGI Emerging Markets Fixed Income Fund	43,004	580,322
Bridgewater I STIF Fund	33,938	385,562
UBS US Bond Fund	899	190,049
Mellon Aggregate Bond Index Fund	521	173,326
Bridgewater Corporate Bond Fund	10,304	144,482
Mellon Active Bond Fund	461	61,187
Other	-	235,741
Total Unit Trusts, 9.87% (Cost, $3,082,699)		3,223,258
Government Mortgage Backed Securities		
FNMA 30 Year Single Family Mortgage, 5.50%, 12/31/2040	195,528	191,495
FNMA 30 Year Single Family Mortgage, 5.00%, 10/31/2037	101,390	96,701
FNMA 30 Year Pass Throughs, 6.00%, TBA	74,400	74,493
GNMA 30 Year TBA Pool, 6.00%, 10/15/2034	62,150	62,538
Other	-	1,724,070
Total Government Mortgage Backed Securities, 6.58% (Cost, $1,922,784)		2,149,297
Government Notes and Bonds		
Germany (fed Rep) Bonds, 2.75%, 12/14/2007	43,125	61,162
US Treasury Notes, 4.13%, 8/31/2012	63,839	63,580
Other	-	1,589,692
Total Government Notes and Bonds, 5.25% (Cost, $1,680,841)		1,714,434
Corporate Bonds, 2.83% (Cost, $939,025)	-	924,139
Non-Government Backed C.M.O.s, 1.89% (Cost, $620,192)	-	617,607
Commercial Mortgage-Backed Securities, 0.83% (Cost, $278,846)	-	269,798
Short Term Investment Funds, 0.17% (Cost, $54,668)	-	55,617
Government Agencies, 0.71% (Cost, $228,423)	-	231,142
Asset Backed Securities, 0.59% (Cost, $192,961)	-	190,994

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

National Railroad Retirement Investment Trust

Condensed Schedule of Investments
As of September 30, 2007
($ In thousands)

Fixed Income	Number of Units, Shares or Par Value (000)		Value
Index-Linked Government Bonds, 0.39% (Cost, $141,402)	-	$	128,705
Short Term Bills and Notes, 0.19% (Cost, $60,553)	-		62,741
Other Fixed Income Securities (b), 0.15% (Cost, $47,086)	-		47,318
Commercial Paper, 0.07% (Cost, $22,451)	-		22,514
Total Fixed Income, 29.56% (Cost, $9,271,931)		$	**9,637,564**
Securities Lending Collateral			
Core USA Fund (c)	-		2,363,524
Total Securities Lending Collateral, 7.23% (Cost, $2,363,524)			**2,363,524**
Total Investments in Securities, 108.85% (Cost $32,305,975)			**35,555,858**
Liabilities less other assets, -8.85%			(2,891,850)
Net Assets, 100.00%		$	**32,664,008**

Note: The Schedule of Investments presents the investments of the National Railroad Retirement Investment Trust by sector within each asset class while identifying the largest 50 holdings in the portfolio.

(a) Includes Purchased Options, Preferred Stock, Real Estate and REITs, Rights/Warrants and Hedge Funds
(b) Includes Index-Linked Corporate Bonds, Municipal/Provincial Bonds, and Certificates of Deposit.
(c) Represents cash collateral pledged by the counterparties for investment securities loaned by the Trust.

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

National Railroad Retirement Investment Trust

Statement of Operations
As of September 30, 2007
($ In thousands)

Income:		
Dividends	$	217,420
Interest		284,515
Income from investment securities loaned, net of fees		7,854
Total Income		509,789
Expenses:		
Investment management fees		65,943
Compensation		2,980
Professional fees		2,549
Trustee fees and expenses		229
Custodial fees		100
Other expenses		3,574
Total Expenses		75,375
Net Investment Income		434,414
Realized and Unrealized Gain (Loss) from Investments and Foreign Currency:		
Net realized gain (loss) from:		
Investments		5,881,869
Foreign currency		70,793
		5,952,662
Net increase (decrease) in unrealized gain (loss) on:		
Investments		(1,704,650)
Translation of assets and liabilities in foreign currencies		(170)
		(1,704,820)
Net realized and unrealized gain from investments and foreign currency		4,247,842
Net Increase in Net Assets Resulting from Operations	$	4,682,256

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

National Railroad Retirement Investment Trust

Statement of Changes in Net Assets
As of September 30, 2007
($ In thousands)

Increase (Decrease) in Net Assets from Operations		
Net investment income	$	434,414
Net realized gain/(loss) from investments and foreign currency		5,952,662
Net change in unrealized gain (loss) on investments and translation of assets and liabilities in foreign currencies		(1,704,820)
Net increase in net assets resulting from operations		4,682,256
Assets transferred to the Treasury		(1,391,000)
Net Assets:		
Beginning of Year		29,372,752
End of Year	$	32,664,008

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, 2007

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 that is neither an agency nor instrumentality of the Federal Government. The Trust became effective on February 1, 2002.

The Railroad Retirement system was created as a Federal pension program during the 1930s to fund retirement benefits of railroad workers and their dependents. For more than 65 years, the Railroad Retirement Account ("RRA"), a Federal trust fund, has collected payroll taxes from railroad employers and employees and paid out benefits to beneficiaries. Railroad Retirement is funded as a pay-as-you-go system that is not subject to the Employee Retirement Income Security Act of 1974 ("ERISA") funding rules.

The Act authorizes the Trust to manage and invest the assets of the Railroad Retirement system in the same array of investment alternatives available to private sector pension plans, and to pay administrative expenses of the Trust from the assets in the Trust. Prior to the Act, Railroad Retirement assets were limited to investment in US Government securities issued directly by the United States Treasury (the "Treasury"). Responsibility for administering the Railroad Retirement system, including eligibility determinations and the calculation of beneficiary payments, remains with the Railroad Retirement Board (the "Board"), a Federal agency.

Investment Management— The Trust's principal investment objective for its portfolio of investments ("portfolio") is to achieve a long term rate-of-return on assets for the portfolio sufficient to enhance the financial strength of the railroad retirement system and to provide timely funding to the Treasury for payment of benefit obligations and administrative expenses.

Except for limited partnership agreements, which are held by the Trust, all of the Trust's assets in the portfolio are held by custodians appointed by the Trust, or transfer agents in the case of commingled funds.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the Trust in preparation of its financial statements. The policies conform to accounting principles generally accepted in the United States of America ("GAAP") for investment companies.

Basis of Accounting— The Trust applies the accrual method of accounting when preparing its financial statements.

Valuation of Investments— Commingled funds, which are not publicly traded, may include publicly-traded securities for which detailed holdings are reported to the Trust. The fair value of these commingled funds as of September 30, 2007 totaled approximately $15.7 billion. Fair values of non-publicly traded securities are determined after consideration of valuations provided by the external investment managers adjusted for receipts, disbursements, and distributions through the date of the statement of assets and liabilities. The valuation of these non-publicly traded securities may involve estimates, appraisals, assumptions, and methods that are reviewed by management. Due to the inherent limitations in any estimation technique, these fair value estimates are not necessarily indicative of the amounts that would be realized in a market transaction.

Equity securities traded on a national securities exchange or quoted on the NASDAQ National Market System ("NMS") are valued on their last reported sale price on the principal exchange (US or foreign) or official closing price as reported by NASDAQ. Options and futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade. Securities traded on over-the-counter ("OTC") markets as well as listed securities for which no sales are reported are valued at the most recent bid quotation.

Fixed income securities (US and foreign) for which price quotations are readily available are valued at the most recent reported sales price.

Foreign securities are valued as of the close of each foreign security's market wherein each security trades. All investments quoted in foreign currency are translated into US dollars at the prevailing exchange rates on the date of valuation. Investments in foreign securities may involve risks not present in domestic investments. Since foreign securities may be denominated in foreign currency and involve settlement and pay interest or dividends in foreign currencies, changes in the relationship of these foreign currencies to the US dollar can significantly affect the value of investments and earnings of the portfolio. Foreign investments may also subject the Trust to foreign government exchange restrictions, expropriations, taxation or other political, social or economic risks, all of which could affect the value of the foreign securities investments.

Securities (US and foreign) for which quotations are not readily available are valued under procedures contained in the Investment Manager Guidelines of the Trust's custodian contract with Northern Trust, approved by the Trustees. The pricing procedures for a security traded within the US, which includes, among other factors, researching most recent bid and ask prices, documenting the reason(s) for unavailability of data from a pricing service, and requesting current bids for similar securities from independent securities broker-dealers, may also be used to determine the value of a foreign security should something occur that renders quotations not readily available for a foreign security.

Private Equity ("PE") partnership assets are valued by the Trust at fair value as determined by the General Partner ("GP") of the investment partnership in accordance with the terms of each partnership's governing agreement. In general, the partnership agreements require assets to be valued by applying a pricing model, which generally requires the assets of the partnership to be recorded at cost, which approximates value, until such time a financial event(s) results in a material change in the value of the assets. Changes in value for non-marketable securities held by each PE partnership are valued by the GP in accordance with GAAP and oversight by a Limited Partner advisory board. This value may be adjusted by the Trust if there is evidence in a secondary market of partnership share transactions that are different than the partner capital accounts.

Swap agreements are valued by the Trust at prices furnished by approved pricing sources. Changes in the value of swap agreements are recorded as unrealized appreciation or depreciation in the Statement of Assets and Liabilities. The amounts related to net receipts/(payments) under the swap agreements are recorded as realized gain/(loss) in the Statement of Operations. The primary risk associated with swap agreements is that a counterparty could default on its obligation to pay net amounts due to the Trust.

Security Transactions, Related Income and Expense— The Trust records purchases and sales of investment securities on a trade-date basis. Investment securities are recorded at value. Interest income is determined on the basis of coupon interest accrued using the interest method. Dividend income (less foreign tax withheld, if any) is recorded on the ex-dividend date. Gains or losses realized on sales of investment securities are based on average cost.

Options Contracts— The Trust may purchase or sell (write) exchange- (or OTC-) traded options contracts to hedge against risks associated with price fluctuations for certain securities.

When either a put or call option is purchased, the contract is recorded as an investment and the premium gets marked-to-market daily to reflect the current market value of the option contract. When a purchased option contract expires (unexercised), a loss is realized in the amount of the cost of (premium paid for) the option. If a closing sale contract is entered into, however, a gain or loss is realized, to the extent that the proceeds from the sale are greater or less than the cost of the option. If a put option is exercised, a gain or loss is realized from the sale of the underlying security by adjusting the proceeds from such sale by the amount of the premium paid for the put option. If a call option is exercised, the cost of the security purchased upon exercise is increased by the premium paid for the call option.

When either a put or call option is sold (written), an amount equal to the premium received is recorded as a liability. The liability gets marked-to-market daily to reflect the current market value of the written option. When a written option contract expires (unexercised), a gain is realized in the amount of the premium received for (or paid for) this option. If a closing purchase contract is entered into, however, a gain or loss is realized in the amount of the premium less the cost of the option. If a written put option is exercised, the amount of the premium originally received reduces the cost of the security, which is purchased upon exercise of the put option. If a sold (written) call is exercised, a gain or loss is realized from the sale of the underlying security, and the proceeds (if any) from such sale are increased by the premium received for the written call.

Transactions in options written during the fiscal year ended September 30, 2007 were as follows:

	Number of Contracts	Premiums ($000's)
Options outstanding 9/30/2006	(173,800,398)	$ (1,880)
Options written	(530,776,442)	(5,215)
Options exercised/expired	495,101,001	4,357
Options outstanding 9/30/2007	(209,475,839)	$ (2,738)

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 does not invest in financial futures contracts for the sole purpose of adding leverage to its portfolio. Futures contracts are valued at the last sales price quoted on the exchange on which they primarily trade.

The Trust is required to pledge an amount of cash, US government securities, or other assets, equal to a certain percentage of the futures contract amount (initial margin deposit) upon entering a financial futures contract. Subsequent payments, known as "variation margin," are made (or received) by the Trust each day, depending on the daily fluctuations in the value of the underlying financial instrument. The Trust records an unrealized gain or loss equal to the daily variation margin. When the margin amount is received or paid in cash, the daily variation margins are recorded as a realized gain or loss.

The Trust's use of financial futures transactions entails the risk of imperfect correlation in movements in the price of futures contracts and the value of the underlying hedged assets, and the risk associated with the possibility of an illiquid market. Should futures' market conditions change unexpectedly, and the Trust takes no action to respond to such changes, the Trust may not achieve the anticipated benefits of the financial futures contracts and may realize a loss. 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. Investment securities in the portfolio denominated in a foreign currency are translated into US dollars at current exchange rates. Purchases and sales of securities, income receipts and trading expenses are translated into US dollars at the exchange rate on the date of the transactions.

Forward Foreign Currency Exchange Contracts— The Trust may use currency contracts to hedge against fluctuations in currency exchange rates. The Trust enters forward foreign currency exchange contracts ("forward currency contracts") or spot currency contracts as part of its investment strategies when purchasing or selling investment securities denominated in a foreign currency. Differences in currency exchange rates can adversely impact the value associated with the purchasing or selling of investment securities denominated in a foreign currency.

The Trust may use spot currency contracts to hedge against foreign currency exchange rate fluctuations related to a specific portfolio transaction, such as the delay between a security transaction's trade date and settlement date. The Trust may also use forward currency contracts to hedge against foreign currency exchange rate fluctuations related to portfolio holdings or concentrations of such holdings.

Currency contracts are adjusted daily by the prevailing spot or forward rate of the underlying currency, and any appreciation or depreciation is recorded for financial statement purposes as unrealized until the contract settlement date, at which time the Trust records realized gains or losses equal to the difference between the value of the contract at the time the contract opened and the value at the time it closed.

The Trust could be exposed to risk if the counterparty is unable to meet the terms of a currency contract or if the value of the foreign currency changes unfavorably and the Trust does not alter its position in the transaction. To mitigate this risk, the Trust requires its counterparties to pledge either cash or corporate securities as collateral against default in these transactions.

Swap Agreements— The Trust may enter swap transactions for hedging purposes as well as in order to efficiently gain exposure to a particular asset class index.

At the time a swap agreement reaches its scheduled termination (or contract expiration) date, there is risk that the Trust would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as the expiring transaction. The primary risk associated with swap agreements is that a counterparty could default on its obligation to pay net amounts due to the Trust.

Securities Lending— The Trust may participate in securities lending. Securities lending transactions are usually initiated by securities broker-dealers and other financial institutions that need specific securities to cover either a short sale or a customer's failure to deliver securities sold short. The Trust requires counterparties to pledge either cash or securities as collateral to mitigate potential losses during securities lending transactions.

When the Trust receives cash as collateral pledged by a counterparty, the Trust recognizes this cash as its asset along with an obligation to return the cash. The cash is invested in a short-term investment fund until it is returned to the counterparty. This amount is reflected in Investments in Securities in the accompanying Statement of Assets and Liabilities and totaled $2.4 billion as of September 30, 2007.

When the Trust receives securities as collateral pledged by a counterparty, the Trust does not recognize the securities as its asset along with an obligation to return the securities since the Trust may not sell or repledge securities it receives as collateral pledged by a counterparty.

Notes to Financial Statements
As of and for the Fiscal Year Ended September 30, 2007

Securities on loan, their value and respective collateral pledged as of September 30, 2007 were as follows:

Securities Loaned ($ in thousands)	Value of Securities Loaned	Cash Collateral Pledged	Value of Securities Loaned	Securities Collateral Pledged
Fixed Income - Non-US Gov't Bonds	$ 26,516	$ 27,630	$ –	$ –
Fixed Income - Non-US Agencies	6,034	6,462	–	–
Fixed Income - Non-US Corp Bonds	25,080	26,784	–	–
Fixed Income - US Gov't Bonds	519,809	531,297	54,609	55,922
Fixed Income - US Agencies	129,631	132,523	3,750	3,840
Fixed Income - US Corp Bonds	228,483	234,303	11,462	11,743
Equity - US Common Stock	1,104,334	1,133,632	62,617	64,305
Equity - Non-US Common Stock	258,488	270,893	10,850	11,335
	$ 2,298,375	$ 2,363,524	$ 143,288	$ 147,145

Common Stock— The Trust invests in common stock across all corporate sectors.

Government Mortgage Backed Securities— The Trust invests in government mortgage backed securities. Government mortgage backed securities ("MBS") are issued generally by government sponsored enterprises (e.g., the Federal National Mortgage Association ("Fannie Mae"); Federal Home Loan Mortgage Corporation ("Freddie Mac"); and Government National Mortgage Association ("Ginnie Mae"), respectively).

Government Bonds and Notes— The Trust invests in government bonds and notes. These include bonds and notes issued by the US government as well as foreign governments.

Corporate Bonds— The Trust's investment in corporate bonds covers all corporate sectors.

Income Taxes— The Trust is exempt from 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.

Cash and Cash Equivalents— Cash and Cash Equivalents includes cash and foreign currency 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, 2007, the Trust held $2.9 million of restricted cash, representing initial margin on futures contracts.

Investment Management Fees—Management fees on investment accounts are generally paid on a quarterly basis and are calculated as a percentage of the weighted-average value of assets under management, with an additional performance fee in some instances. The investment management fees for a portion of the assets are calculated and based upon a flat fee, with an additional performance fee for in certain instances.

Use of Estimates—The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses for the period. Actual amounts could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

Railroad Retirement Board—Under the provisions of the Act, the Board directs the Treasury to contribute RRA and Social Security Equivalent Benefit Account ("SSEBA") assets to the Trust, as defined in the Act. Since the Trust's inception, the Board has contributed $21.3 billion to the Trust. The Board also periodically directs the Trust to transfer funds to the Treasury to fund benefit payments and administrative expenses of the RRA. Since the Trust's inception, $5.0 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2007, $1.4 billion was transferred to the Treasury. As defined in the Act, the Trust reports to the Board and is required to perform its duties solely in the interest of the Board and through it, the participants and beneficiaries of the programs funded by the Act.

Legal Counsel—The Trust incurred $1.8 million in legal fees during the fiscal year ended September 30, 2007. Legal counsel was provided by firms that may also provide services to the major railroads and railway labor unions whose representatives are members of the Board of Trustees.

4. EMPLOYEE BENEFIT PLAN

The Trust provides a defined contribution plan ("Plan") covering all employees. Employees participate in the Plan by making discretionary contributions from their eligible compensation, but not more than the maximum annual amount allowed by law. The Trust makes matching contributions equal to 100% on the first 3% of compensation deferred and 50% on the next 2% of compensation deferred. The Trust may also, at its discretion, make an additional profit-sharing contribution to the Plan. During the fiscal year ended September 30, 2007, the Trust made contributions of $132,998 to the Plan on behalf of the employees.

5. COMMITMENTS

Office Space Lease– In July 2003, the Trust entered into a ten-year operating lease agreement with respect to its principal office space in Washington, DC.

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

Fiscal Year Ending September 30	Amount
2008	$ 368,605
2009	403,530
2010	413,402
2011	423,526
2012	433,902
Thereafter	369,324
Total	$2,412,289

Private Equity Investments– As of September 30, 2007, the Trust had commitments to invest up to an additional $1.28 billion in Private Equity Investments.

6. FINANCIAL HIGHLIGHTS

The financial ratios noted below encompass the net of all funds received by the Trust through September 30, 2007.

	October 1, 2006 - September 30, 2007
Financial Ratios (1):	
Expense to average net assets	0.24%
Net investment income to average net assets	1.40%
Total Return (2):	
Total Return	16.38%

(1) The ratios of expense to average net assets and net investment income to average net assets represent the expenses and net investment income for the period, as reported on the statement of operations, to the Trust's average net assets.

(2) The total return reflected above includes net investment income and net realized and unrealized gains on investments. The return is time-weighted and measures the performance of a unit of assets held continuously for the time period covered.

6. RECENTLY ISSUED ACCOUNTING STANDARD

In September 2006, the Financial Accounting Standards Board released the Statement of Financial Accounting Standard No. 157 ("SFAS 157"), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value and establishes a framework for measuring fair value, as well as additional disclosure requirements in the financial statements. SFAS 157 will be effective for the Trust's fiscal year ending September 30, 2009, or for any stand alone schedule of assets and liabilities prepared subsequent to November 15, 2007. We are evaluating the effects of SFAS 157; however, it is not expected to have a material impact on the Trust's net assets.

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