

NRRIT

National Railroad Retirement Investment Trust

**Annual Management Report for Fiscal Year 2021
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, 2021**

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1) Introductory Statement

A) Overview

Global economic activity rebounded significantly during the Trust's 2021 fiscal year (October 1, 2020 - September 30, 2021), as most developed market economies bounced back sharply following the onset of the Coronavirus pandemic in early 2020. However, this recovery was neither a straight line nor uniform across the globe, as there were several spikes in Covid-19 cases throughout the year and many countries, particularly in emerging markets, struggled with vaccine access and distribution. The US labor market improved dramatically during the year, with the unemployment rate falling from low-double digits to 4.8% in September 2021. Inflation concerns escalated during the year, with the combination of increasing consumer demand and supply-chain bottlenecks leading to widespread price increases for goods and services. Many central banks, including the US Federal Reserve, viewed these inflationary pressures as transitory, and thus global monetary policy remained extremely accommodative throughout the year, with the US and other major central banks keeping short-term rates near zero. However, there was increased talk of tapering near the end of FY 2021, with the US Federal Reserve expected to decrease its rate of bond purchasing in coming months and perhaps increase interest rates in late 2022. Fiscal policy also remained supportive throughout the year, as many governments continued to back public-sector spending to combat the impacts of the pandemic and to spur economic growth.

In this environment, the National Railroad Retirement Investment Trust ("Trust") achieved an investment return of 27.85% (net of fees). This investment return compares with the return on the Trust's benchmark of 22.89% over the same period.

Overall, during fiscal year 2021, the net asset value of Trust-managed assets increased from \$24.8 billion on October 1, 2020, to \$28.5 billion on September 30, 2021. This increase in asset value includes \$2.8 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, 2020		\$24.8
Transfers from Trust to Treasury	\$(2.8)	
Net Change in value	6.5	
Net Increase/(Decrease)		<u>3.7</u>
September 30, 2021		<u>\$28.5</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 nineteen years of investment operations, the Trust has transferred \$29.8 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 \$30.2 billion as of the end of fiscal year 2021. 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	\$(29.8)	
Net Change in value*	39.5	
Net increase/(decrease)		<u>9.7</u>
September 30, 2021		<u>\$30.4</u>

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

B) Portfolio Diversification

Over the past nineteen 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, absolute return, and opportunistic 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 staff reviewed and updated the Trust's investment, accounting, compliance, and operations procedures manuals. The Board and the investment staff also completed a thorough review of the Trust's asset allocation structure, which resulted in the Board's approval of 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 nineteenth Annual Management Report. The Board and the investment staff also held informal briefings

regarding matters related to issues impacting investment markets, the rail industry, and the Trust. 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 2021, the Trust announced the appointment of two Trustees and a new Chair for the period beginning February 1, 2021. Railroad management appointed Mr. Bill Slater, Head of Investor Relations, CSX Corporation, to a three-year term that expires on January 31, 2024. Railway labor unions appointed Mr. George J. Francisco, Jr., President Emeritus, National Conference of Firemen and Oilers – SEIU, to a three-year term that expires on January 31, 2024. In addition, the Trustees appointed Mr. Francisco as the Chair of the Board of Trustees for the period February 1, 2021 – January 31, 2022.

Mr. Slater and Mr. Francisco joined the following five members on the Board: for terms expiring on January 31, 2022, Ms. Beth Miller, Treasurer, BNSF Railway Company, and Mr. William C. Walpert, National Secretary-Treasurer Emeritus of the Brotherhood of Locomotive Engineers and Trainmen (BLET); and for terms expiring on January 31, 2023, Ms. Mary S. Jones, Vice President and Treasurer (Retired), Union Pacific Company, Mr. Joel Parker, former Special Assistant to the President and International Vice President of the Transportation Communications International Union (TCU)/IAM, and Mr. William F. Quinn, former chairman and founder of American Beacon Advisors.

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, including monthly conference calls between the two organizations to discuss the transfers and other related matters. 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.

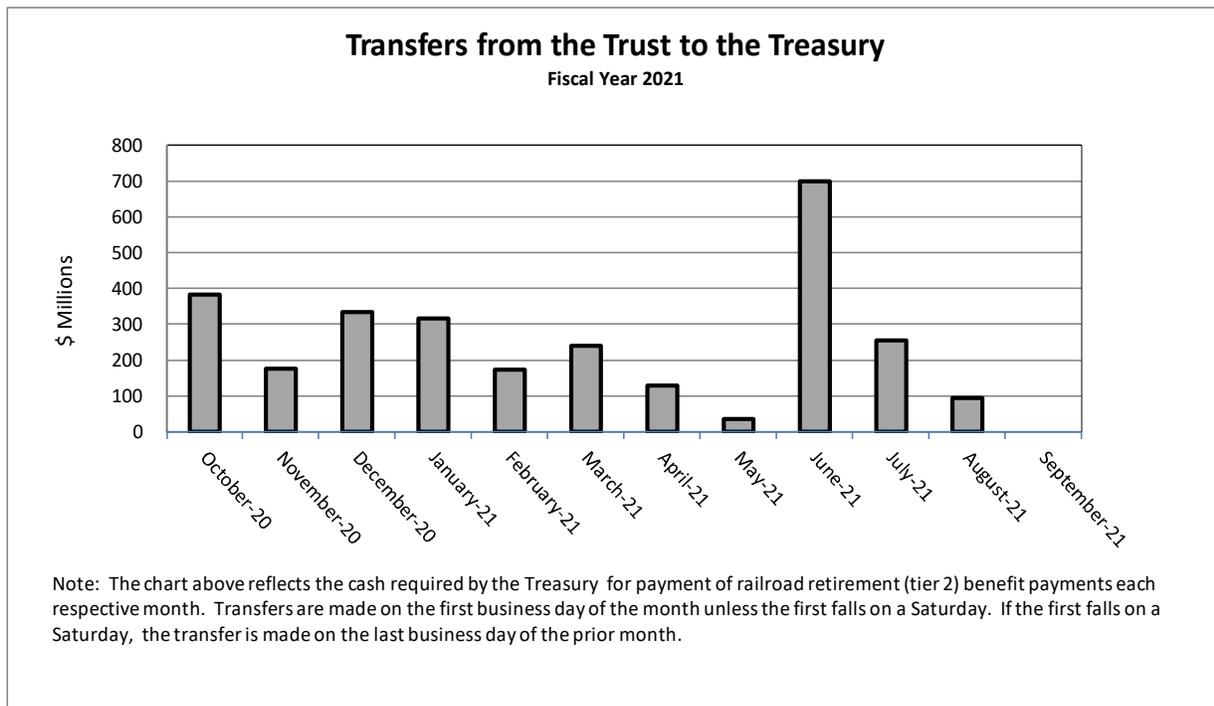
Pursuant to its established practice of periodic meetings with the RRB, during fiscal year 2021, the Trustees, the Chief Executive Officer/Chief Investment Officer, Chief Financial and Operating Officer, and Trust legal counsel met with the Members of the RRB and its General Counsel, Chief Financial Officer, and Chief Actuary 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. 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 2021, 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, in fiscal year 2019, the Trust entered into an MOU with the U.S. Government Accountability Office ("GAO") related to GAO access to information supporting the Trust's audited financial statements. The MOU 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. The Trust and its auditors cooperated with the GAO with respect to these matters during the fiscal year. A copy of this MOU is included in Appendix E.

C) Transfers to and from the Treasury

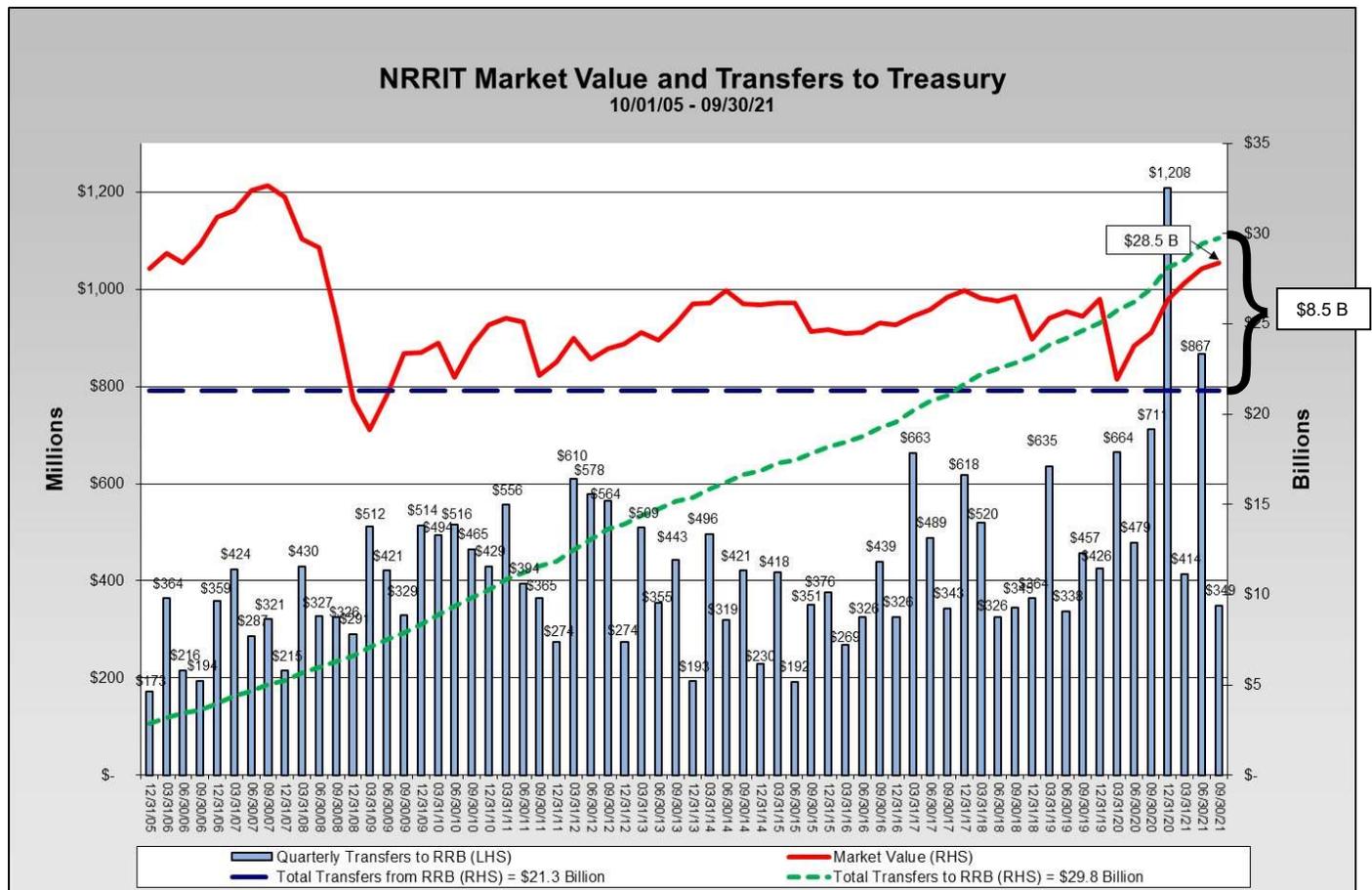
The Railroad Retirement and Survivors’ Improvement Act of 2001 (the "Act") provided for the transfer of railroad retirement system funds to the Trust for investment in a diversified portfolio similar to those of other large US pension plans. From inception through fiscal year 2004, the Trust received \$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 2021, the Trust transferred a total of \$2.8 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 2021:



Summary of transfers: From its inception in February 2002 to September 30, 2021, 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 \$8.5 billion, to the Treasury; therefore cumulative transfers to the Treasury since inception are \$29.8 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 \$37.0 billion, representing total Trust-managed assets of \$28.5 billion as of September 30, 2021, plus \$8.5 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 2021 and certified the ratio to the Secretary of the Treasury on October 22, 2021. The Secretary determined the AABR for fiscal year 2021 and on November 19, 2021 published a notice in the Federal Register of the tier 2 employer and employee tax rates for calendar year 2022. Copies of the RRB certification letter and the Treasury notice are contained in Appendix L. The ABR increased from 4.35 for fiscal year 2020 to 5.09 for fiscal year 2021. The ten-year AABR remained at 4.9 at September 30, 2020 and September 30, 2021.

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 US 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 2021, the investment return, net of fees, on Trust-managed assets was 27.85%, while the Trust's strategic benchmark returned 22.89%. The relative outperformance 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 private equity, commodities, and public real estate, which returned 73.7%, 42.9%, and 36.1% 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. During fiscal year 2020, the Board and investment staff commenced a thorough review of the Trust's asset allocation structure; this review was completed in fiscal year 2021. The asset allocation study 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 January 1, 2021. The Trust's *Investment Guidelines* are included in Appendix B.

Current Long-Term Target Asset Allocation***(Approved November 18, 2020)***

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>
US Equity	31%	26-36%
Non-US Equity	24%	19-29%
Private Equity	12%	7-17%
US Fixed Income	10%	6-14%
Global Fixed Income	2%	0-4%
Private Debt	2%	0-4%
Real Estate	10%	5-15%
Absolute Return	4%	2-6%
Opportunistic	3%	1-5%
Cash	<u>2%</u>	0-4%
	<u>100%</u>	

C) Investment Plan: Implementation

US Equity: During fiscal year 2021, the Trust terminated one active account and one passive account. At the end of the fiscal year, this asset class had 16 active US equity managers, one of which manages two separate accounts, and one US equity index manager managing one product. Approximately 62% of the Trust's US equity portfolio was actively managed at the end of the fiscal year.

Non-US Equity: There were no additions or terminations to the Non-US equity manager accounts during the fiscal year. The Trust ended fiscal year 2021 with 13 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, the Trust employed two 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 12 active/specialist managers, and 100% of the Trust's US fixed income allocation was actively managed.

Global Fixed Income: There were no additions or terminations to the Global 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 global fixed income allocation was actively managed.

Commodities: During fiscal year 2021, this asset class was eliminated in accordance with the Trust's new long-term asset allocation. The Trust terminated all 3 of its active managers, including one whose liquidation process was not yet complete at the end of the fiscal year.

Absolute Return: During the fiscal year, eight mandates were transferred from this asset class to the new Opportunistic asset class in accordance with the new long-term asset allocation. Additionally, three mandates were terminated. At the end of the fiscal year, this asset class had 5 active/specialist managers. This allocation is 100% actively managed.

Opportunistic: During fiscal year 2021, eight mandates were transferred from the Absolute Return asset class to Opportunistic, including one which wound down during the fiscal year. Additionally, three new mandates were added during the fiscal year. At the end of the fiscal year, this asset class had 7 active/specialist managers, one of which manages four separate portfolios for the Trust. This allocation is 100% actively managed.

Private Equity: During fiscal year 2021, the Trust continued its private equity program implementation with one new private equity fund with a new manager, and eleven new private equity funds with existing managers, bringing the total number of active partnerships in the private equity portfolio to 116 at the end of the fiscal year. These 116 partnerships are actively managed by 40 managers. Additionally, commitments were made to six new partnerships with existing managers scheduled to begin their investment period during fiscal year 2022. Six partnerships wound up

operations upon reaching the end of their fund lives during the fiscal year.

Private Debt: One new private debt fund with a new manager began its investment period during fiscal year 2021, bringing the total number of active partnerships in private debt to 16 at the end of the fiscal year. These 16 partnerships are actively managed by 13 managers. One partnership wound up operations upon reaching the end of its fund life during the fiscal year.

Real Assets: Two new partnerships with existing managers began their investment period during fiscal year 2021, bringing the total number of active partnerships in real assets to 95. These 95 partnerships are actively managed by 36 managers. Additionally, commitments were made to two partnerships with new managers and four partnerships with existing managers scheduled to begin their investment period during fiscal year 2022. One partnership wound up operations upon reaching the end of its fund life during the fiscal year. The Trust terminated one actively-managed REIT fund during the fiscal year and had investments in two actively-managed REIT funds at the end of the fiscal year.

Cash: 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 6.2% of the total, or \$1.9 billion out of \$30.4 billion as of September 30, 2021, 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 constitute approximately 84% 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 2012 – FY 2021

Fiscal Year	Expense Ratio (%)
2021	0.28
2020	0.25
2019	0.27
2018	0.29
2017	0.31
2016	0.28
2015	0.27

2014	0.29
2013	0.29
2012	0.30

4) Audit Committee

The Audit Committee (the "Committee") held four meetings during fiscal year 2021. 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, 2021. 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 2021, the Committee provided oversight of the Trust's ongoing program of periodic performance reviews. This included consideration of the scope for the upcoming review, and an evaluation of proposals received from qualified, independent, non-governmental organizations to conduct the review. Both the potential scope areas, as well as the candidate firms, were considered in consultation with the RRB, in accordance with the 2014 MOU included in Appendix D.

The Trust maintains a whistleblower telephone hotline and online portal 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 and portal throughout the year. Complaints may be made by calling the whistleblower hotline at (844) 905-2944, or by visiting nrrit.ethicspoint.com.

5) Internal Accounting and Administrative Controls

During fiscal year 2021, 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, absolute return, and opportunistic 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, 2021, and
Independent Auditors' Report Thereon*

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

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KPMG LLP
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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, 2021, 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, 2021, 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

McLean, Virginia
November 15, 2021

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Statement of Assets and Liabilities

As of September 30, 2021

(\$ in thousands)

Assets

Investments — at fair value (cost \$18,763,883)	\$ 27,609,282
Cash and cash equivalents (including restricted cash of \$44,606)	1,339,119
Receivable for investments sold	181,014
Unrealized gain on forward contracts	59,513
Cash denominated in foreign currency — at fair value (cost \$36,649)	36,249
Tax reclaim receivable	31,315
Dividends receivable	24,032
Interest receivable	21,936
Swap contracts, at fair value	7,665
Other assets	1,197
Total assets	<u>29,311,322</u>

Liabilities

Payable for investments purchased	645,743
Unrealized loss on forward contracts	61,097
Obligation to return cash collateral held	45,337
Accrued management fees	20,500
Swap contracts, at fair value	4,044
Other liabilities	4,408
Total liabilities	<u>781,129</u>

Net Assets

\$ 28,530,193

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

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

Condensed Schedule of Investments

As of September 30, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
Global Equity			
US Equity			
US Common Stocks			
Amazon.com Inc.		48	\$ 158,579
Microsoft Corp.		529	149,104
Facebook Inc. Class A		400	135,843
Apple Inc.		872	123,429
Alphabet Inc. Class A		36	97,482
Visa Inc.		306	68,227
Alphabet Inc. Class C		25	66,356
Other US Common Stocks			4,194,830
	17.50%		<u>4,993,850</u>
Other US Equity Securities (a)	0.01%		<u>3,008</u>
US Equity Commingled Funds			
BlackRock Russell 1000 Index Fund	11.90%	49,311	3,395,981
Total US Equity	29.42%		<u>\$ 8,392,839</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, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
Global Equity (continued)			
Non-US Equity			
Non-US Common Stocks			
Taiwan Semiconductor Manufacturing Co. Ltd.		5,122	\$ 106,621
Samsung Electronics Co. Ltd.		1,687	105,587
ASML Holding NV		108	80,999
Sea Ltd.		248	79,182
Tencent Holdings Ltd.		1,325	78,533
Nestlé S.A.		596	72,052
Other Non-US Common Stock			<u>5,904,463</u>
	22.53%		<u>6,427,437</u>
Non-US Preferred Stocks	0.25%		<u>71,886</u>
Non-US Equity Commingled Funds			
BlackRock MSCI EAFE Equity Index Fund		5,415	171,452
BlackRock World ex-US Small Cap Equity Index Fund		3,200	101,921
Other Non-US Equity Commingled Funds			<u>59,366</u>
	1.17%		<u>332,739</u>
Total Non-US Equity	23.95%		<u>\$ 6,832,062</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, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
Global Equity (continued)			
Private Equity			
Storm Ventures IV		5,123	\$ 191,660
TCV X, LP		70,485	163,563
AlpInvest North Rush II, LP		84,854	158,609
GTCR Fund XI LP		1	135,081
TCV VIII, LP		47,849	132,221
Silver Lake Partners IV, LP		9,679	120,729
TCV IX, LP		34,433	111,690
Silver Lake Partners V, LP		52,065	100,247
Menlo Special Opportunities Fund, LP		24,513	97,990
Emergence Capital Partners III		11,627	97,116
Carlyle Partners VII, LP		62,956	91,045
CVC Capital Partners VII (A), LP		43,948	90,817
Summit Partners Growth Equity Fund IX-A, LP		18,023	84,964
CVC Capital Partners VI (B), LP		13,802	81,058
Advent International GPE VIII-B, LP		15,031	79,852
GTCR Fund XII LP		43,877	78,540
AlpInvest North Rush, LP		2,650	72,843
Trinity XII, LP		20,516	69,543
TA XIII-A LP		44,625	67,745
TA XII-A LP		1	66,031
Other Private Equity			1,910,556
Total Private Equity	14.03%		4,001,900
Total Global Equity (cost \$11,887,302)	67.39%		\$ 19,226,801
Global Fixed Income			
Corporate Bonds	4.80%		\$ 1,369,317
Government Notes and Bonds	3.58%		1,021,820

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, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
<i>Global Fixed Income (continued)</i>			
Government-Sponsored Entity Mortgage - Backed Securities ("MBS")	1.57%		\$ 447,580
Private Debt			
Summit Partners Subordinated Debt Fund V-A, LP		65,379	89,557
Other Private Debt			179,448
	0.94%		<u>269,005</u>
Asset Backed Securities	0.74%		212,348
Commercial MBS	0.45%		128,874
Short-Term Bills and Notes	0.37%		106,366
Government Agencies	0.25%		70,664
Non-Government Collateralized Mortgage Obligations	0.18%		52,223
Municipal Bonds	0.12%		33,199
Other Fixed Income Securities (b)	0.10%		27,163
Index-Linked Government Bonds	0.02%		6,879
Fixed Income Commingled Funds			
AG Mortgage Value Partners		56,733	120,017
Wellington Emerging Market Debt		10,690	103,160
Other Fixed Income Commingled Funds			84,074
	1.08%		<u>307,251</u>
<i>Total Global Fixed Income (cost \$3,874,680)</i>	14.20%		<u>\$ 4,052,689</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, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
Global Real Assets			
Private Real Assets			
Northwood Real Estate Partners, LP		25,550	\$ 101,189
Prudential PRISA II		2	80,925
Blackstone Real Estate Partners VII, LP		1	75,945
IMT Capital Partners Fund IV, LP		39,867	66,361
Other Private Real Assets			1,883,073
	7.74%		<u>2,207,493</u>
Real Estate Investment Trusts (c)	1.64%		<u>467,577</u>
Total Global Real Assets (cost \$1,779,850)	9.38%		\$ <u>2,675,070</u>
Absolute Return			
Elliott International Class B		204	\$ 370,932
Farallon Capital Institutional Partners		175,000	252,406
Davidson Kempner International Ltd Class C		850	157,173
Two Sigma Absolute Return Fund		47	81,668
Other Absolute Return Funds			63,018
Total Absolute Return (cost \$637,882)	3.24%		\$ <u>925,197</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, 2021

(\$ in thousands)

	% of Net Assets	Number of Units, Shares or Par Value (000's)	Fair Value
<i>Opportunistic</i>			
Arrowstreet Capital Global All Country Alpha Extension Fund		2,750	\$ 280,550
Element Capital US Feeder Fund LLC		75,190	157,468
Tilden Park Investment Fund LP		100,000	116,360
Other Opportunistic Funds			175,147
<i>Total Opportunistic (cost \$584,169)</i>	2.56%		<u>\$ 729,525</u>
Total Investments (cost \$18,763,883)	96.77%		\$ 27,609,282
Other Assets less Liabilities	3.23%		920,911
Net Assets	100%		<u>\$ 28,530,193</u>

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, 2021

(\$ in thousands)

Income	
Dividends	\$ 244,714
Interest	111,807
Total income	<u>356,521</u>
Expenses	
Investment management fees	63,778
Compensation and benefits	5,339
Investment related fees and expenses	2,209
Professional fees	1,729
Network, software and systems	1,019
Occupancy expense	764
Custodial fees	388
Insurance expense	347
Trustee fees and expenses	111
Other expenses	284
Total expenses	<u>75,968</u>
Net investment income	280,553
Realized and unrealized gain/loss from investments and foreign currency	
Net realized gain from investments and foreign currency	2,585,895
Net change in unrealized gain/loss from investments and foreign currency	<u>3,679,456</u>
Net realized and unrealized gain/loss from investments and foreign currency	<u>6,265,351</u>
Change in net assets resulting from operations	<u>\$ 6,545,904</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, 2021

(\$ in thousands)

<i>Cash flows from operating activities:</i>	
Change in net assets resulting from operations	\$ 6,545,904
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	19,306,768
Purchase of long-term investments	(17,194,722)
Net unrealized gain on investments and foreign currency	(3,679,456)
Net realized gain from investments and foreign currency	(2,585,895)
Change in receivable for investments sold	439,525
Proceeds from principal paydowns of asset-backed securities	258,030
Net proceeds from purchases/sales of short-term investments (a)	218,128
Net decrease in cash from swap contract transactions	121,694
Change in payable for investments purchased	(116,216)
Change in obligation to return cash collateral held	16,111
Change in interest receivable	5,973
Change in dividends receivable	(4,321)
Change in other assets	4,122
Change in accrued investment management fees	3,500
Change in other accrued expenses and liabilities	(146)
	<u>3,338,999</u>
<i>Cash flows from financing activities:</i>	
Assets transferred to the United States Treasury ("Treasury")	<u>(2,838,000)</u>
	<u>(2,838,000)</u>
Effect of foreign currency on cash	<u>24,585</u>
Net change in Cash, Cash Equivalents and Foreign Currency	<u>525,584</u>
Beginning Balance	849,784
Ending Balance	<u>\$ 1,375,368</u>

- (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, 2021 (\$ in thousands)

Change in net assets from operations:	
Net investment income	\$ 280,553
Net realized gain from investments and foreign currency	2,585,895
Net change in unrealized gain/loss from investments and foreign currency	<u>3,679,456</u>
Net change in net assets resulting from operations	6,545,904
Assets transferred to the Treasury	(2,838,000)
Net Assets:	
Beginning of year	<u>24,822,289</u>
End of year	<u>\$ 28,530,193</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, 2021

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 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, Private Debt, and Private Equity partnerships, Absolute Return and Opportunistic 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, 2021

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, 2021, the Trust held approximately \$44.6 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, 2021

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, 2021

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, 2021

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, 2021

statements. The Trust is subject to unrelated business income tax (“UBIT”), in connection with certain of its limited partnership and commingled fund interests. The Trust incurred \$475 thousand of UBIT expense during the fiscal year ended September 30, 2021.

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, 2021

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. 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 (including Federal securities), 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, 2021

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	\$ 8,385,576	\$ 3,353	\$ 3,910	\$ -	\$ 8,392,839
Non-US Equity	6,819,019	-	13,043	-	6,832,062
Private Equity	-	-	-	4,001,900	4,001,900
Global Fixed Income**	97,031	3,446,230	14,289	495,139	4,052,689
Global Real Assets	467,577	-	-	2,207,493	2,675,070
Absolute Return Mandates	-	-	-	925,197	925,197
Opportunistic Mandates	-	-	-	729,525	729,525
	<u>\$ 15,769,203</u>	<u>\$ 3,449,583</u>	<u>\$ 31,242</u>	<u>\$ 8,359,254</u>	<u>\$ 27,609,282</u>
Total investments					
Swap contracts, at fair value	\$ -	\$ 7,665	\$ -	\$ -	\$ 7,665
Futures contracts***	2,991	-	-	-	2,991
Forward contracts	-	59,513	-	-	59,513
Foreign currency	36,249	-	-	-	36,249
Liabilities					
Swap contracts, at fair value	\$ -	\$ 4,044	\$ -	\$ -	\$ 4,044
Futures contracts***	6,221	-	-	-	6,221
Forward contracts	-	61,097	-	-	61,097
Written options****	-	265	-	-	265

* 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.

**As of September 30, 2021, the Trust held \$752.5 million in Federal securities. The Trust defines Federal securities as those securities issued by the Treasury, and securities issued by a Federal agency. These securities are included in the Global Fixed Income Level 2 category within the fair value hierarchy table.

***Amounts represent cumulative gross gains and losses on open futures contracts, translated into US dollars, as of September 30, 2021. 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.

NATIONAL RAILROAD RETIREMENT INVESTMENT TRUST

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As presented in the “Other” column of the fair value hierarchy table above, the Trust relies on the NAV of certain Funds and Partnerships as these terms are defined below 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 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.

For the year ended September 30, 2021, there were no significant changes to the Trust’s fair value methodologies. Purchases and sales of Level 3 securities during the year were \$8.7 million and \$13.6 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, 2021, transfers into and out of Level 3 were \$5.5 million and \$0.4 million, respectively.

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

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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 derived from NAVs provided by the external investment managers.

Private Debt, Private Equity and Real Estate limited partnership assets (“Partnerships”) are valued by the Trust at fair value from NAVs provided by each Partnership’s general partner, consistent with ASU 2015-07.

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	1,356,848	(b)
Global Fixed Income	Includes US Investment Grade, High Yield, Private Debt, and Global Government Bond and Currency investment funds	314,735	(c)
Global Real Assets	Includes Natural Resources, Private Real Estate and Real Estate Investment Trust investment funds	1,392,067	(d)
Absolute Return	Includes multi-asset class strategies that offer an attractive risk-adjusted return and have a low correlation with other Trust investments	11,788	(e)
Opportunistic	Includes multi-asset class strategies that enhance the overall returns of the Trust while providing moderate diversification benefits	223,415	(f)
		<u>\$ 3,298,853</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.

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- (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.
- (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.
- (f) Opportunistic 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, 2021, 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, 2021 (\$ in thousands).

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<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	\$ -	\$ -
Written Options	Other liabilities	-	-
<i>Commodity</i>			
Forward Contracts	Unrealized gain/loss on forward contracts	-	-
Commodity Swaps	Swap contracts, at fair value	-	-
Futures Contracts	Other assets	-	(615)
<i>Credit</i>			
Written Options	Other liabilities	-	(50)
Credit Default Swaps	Swap contracts, at fair value	2,405	(806)
<i>Currency</i>			
Purchased Options	Investments - at fair value	120	-
Written Options	Other liabilities	-	(42)
<i>Foreign Currency</i>			
Exchange Contracts	Unrealized gain/loss on forward contracts	59,513	(61,097)
<i>Equity</i>			
Total Return Swaps	Swap contracts, at fair value	-	-
<i>Interest Rate</i>			
Purchased Options	Investments - at fair value	185	-
Written Options	Other liabilities	-	(173)
Interest Rate Swaps	Swap contracts, at fair value	5,260	(3,238)
Futures Contracts	Other assets/liabilities	960	(112)

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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	\$ (69)	\$ 1,628
Commodity Forward Contracts	348	(184)
Commodity Swaps	3,277	115,115
Futures Contracts	-	(1,063)
<i>Credit</i>		
Options Contracts	96	219
Credit Default Swaps	(667)	727
<i>Currency</i>		
Options Contracts	41	474
Foreign Currency Exchange Contracts	(1,478)	24,819
<i>Equity</i>		
Equity Index Swaps	1,213	19,040
<i>Interest Rate</i>		
Options Contracts	(136)	1,048
Interest Rate Swaps	3,744	(3,192)
Futures Contracts	-	8,572

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Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2021

The following table summarizes the long and short notional exposure of derivative contracts as of September 30, 2021 (\$ in thousands):

<u>Risk Exposure</u>	<u>Long Exposure</u>	<u>Short Exposure</u>
<i>Commodity</i>		
Purchased Options	\$ -	\$ -
Written Options	-	-
Commodity Forward Contracts	-	-
Commodity Swaps	-	-
Futures Contracts	34	-
<i>Credit</i>		
Written Options	-	56,583
Credit Default Swaps	89,673	9,668
<i>Currency</i>		
Purchased Options	10,169	-
Written Options	-	8,156
Foreign Currency Exchange Contracts	3,752,639	3,718,215
<i>Equity</i>		
Total Return Swaps	-	-
<i>Interest Rate</i>		
Purchased Options	1	-
Written Options	-	-
Interest Rate Swaps	134,954	134,378
Futures Contracts	556,104	412,539

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 \$29.8 billion has been transferred to the Treasury by the Trust. During the fiscal year ended September 30, 2021, approximately \$2.8 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.

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Notes to Financial Statements

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Legal Counsel — The Trust incurred approximately \$1.1 million in legal fees during the fiscal year ended September 30, 2021. 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, 2021. The custodian credited \$8 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, 2021, the Trust made contributions of approximately \$254 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 are as follows:

Fiscal Years Ending September 30	Amount
2022	\$ 520,226
2023	530,655
2024	313,138
Thereafter	<u>-</u>
Total	<u>\$ 1,364,019</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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Notes to Financial Statements

As of and for the Fiscal Year Ended September 30, 2021

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, 2021.

	<u>October 1, 2020 — September 30, 2021</u>
FINANCIAL RATIOS ⁽¹⁾ :	
Expense to average net assets	0.28%
Net investment income to average net assets	1.03%
TOTAL RETURN ⁽²⁾ — Total return	27.85%

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

<u>Geographic Region</u>	<u>US Equity</u>	<u>Non-US Equity</u>	<u>Private Equity</u>	<u>Global Fixed Income</u>	<u>Global Real Assets</u>	<u>Absolute Return</u>	<u>Opportunistic</u>	<u>Total</u>
North America	\$8,392,839	\$ 623,177	\$3,142,643	\$ 3,198,438	\$2,119,535	\$ 510,388	\$ 283,294	\$18,270,314
Europe	-	2,815,599	262,346	249,835	241,462	-	-	3,569,242
Asia	-	2,911,179	-	239,102	193,772	-	-	3,344,053
Australia	-	211,840	-	27,784	10,557	-	-	250,181
South America	-	124,759	-	50,928	-	-	-	175,687
Central America	-	42,026	-	82,771	-	-	-	124,797
Africa	-	43,637	-	22,301	-	-	-	65,938
Multi-Region / Global	-	59,845	596,911	181,530	109,744	414,809	446,231	1,809,070
	<u>\$8,392,839</u>	<u>\$6,832,062</u>	<u>\$4,001,900</u>	<u>\$ 4,052,689</u>	<u>\$2,675,070</u>	<u>\$ 925,197</u>	<u>\$ 729,525</u>	<u>\$27,609,282</u>

11. RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This new standard requires a lessee to record a right-of-use asset and a lease liability for all leases with terms longer than 12 months. In May 2020, the FASB issued ASU 2020-05, *Revenues from Contracts with Customer (Topic 606) and Leases (Topic 842) Effective Date for Certain Entities*, formally deferring the effective date of the standard to fiscal years beginning after December 15, 2021, with early adoption permitted. The Trust does not expect the adoption of ASU 2016-02 to have a material effect on its financial statements.

12. SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through November 15, 2021, the date these financial statements were issued, and determined that there were no subsequent events requiring adjustments to or disclosure in the financial statements.
