

July 30, 2020

Mr. Erhard R. Chorle
Chair
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611

Mr. Johnathan Bragg
Labor Member
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611

Mr. Thomas Jayne
Management Member
U.S. Railroad Retirement Board
844 North Rush Street
Chicago, IL 60611

NRRIT

Dear Chairman Chorle and Messrs. Bragg and Jayne,

We are responding to your July 16, 2020 letter in which you present concerns expressed by the White House in its July 7th letter to the RRB about investments made by NRRIT in companies in and from the People's Republic of China ("PRC"). As we have discussed with you, NRRIT and its Board of Trustees take the White House's inquiry very seriously, and we are in the process of gathering relevant information so we can thoroughly evaluate the issues that have been raised and continue to make decisions regarding NRRIT's investments that are in the best interest of railroad retirement participants.

As you know, the investment of NRRIT's assets is accomplished through shared responsibility between NRRIT's Trustees and staff, and the investment managers they hire. NRRIT's Trustees, supported by research and analysis conducted by the Trust's staff, establish the Trust's long-term strategic asset allocation approximately every three years, consistent with industry best practices. In conjunction with these regular asset allocation reviews, the potential long-term performance of a diverse set of asset classes is considered under a wide range of economic scenarios, and staff presents and discusses with Trustees an Investment Plan detailing how the



Trust's portfolio will be structured in order to meet its investment objectives, both for each asset class and for the Trust as a whole.

In order to implement the Investment Plan, NRRIT's Trustees, with the assistance and recommendations of the Trust's staff, hire investment managers, each of whom has been thoroughly researched and vetted by staff in accordance with the Trust's Investment Procedures Manual. This Manual, which is continuously updated and represents the cumulative knowledge and experience of the Trust's staff since NRRIT's inception in 2002, describes the Trust's manager hiring processes and contains detailed due diligence procedures, which are consistent with industry best practices. NRRIT's staff also closely monitors each of its investment managers, including regular meetings and calls, in accordance with the Manual, to ensure that each manager is implementing its strategy in a manner consistent with expectations and that the manager is meeting its investment objectives. Staff regularly discusses with Trustees their assessments of the Trust's managers, including any concerns, and recommends manager changes when appropriate in order to ensure that the Trust's roster of investment managers is best-in-class. Relevant to the issues discussed herein regarding NRRIT's investments in China, although the Trust uses both active and passive managers in various asset classes, we use only active managers to invest in emerging markets, including the PRC.

With respect to issues raised in your July 16th letter, as noted in that letter, NRRIT assets are not invested in the specific companies cited by the National Security Advisor ("NSA") as posing a security threat to the United States, facilitating or supporting the Chinese military, and/or being involved in human rights violations. It is our understanding that companies that pose such threats or are involved in such activities are subject to sanctions imposed by Executive Order and administered by the U.S. Department of Treasury's Office of Foreign Assets Control ("OFAC"), which is responsible for administering and enforcing economic sanctions against targeted foreign countries and companies based on U.S. foreign policy and national security goals. Like other U.S. entities that invest in non-U.S. companies, NRRIT and its investment managers rely on OFAC to identify those companies that raise national security concerns for the United States and/or are involved in human rights violations and, therefore, are subject to U.S. sanctions. NRRIT's investment managers have screening processes in place to identify those companies that have



been sanctioned by OFAC to ensure that NRRIT and other investors abide by such sanctions. NRRIT does not and will not invest in such companies.

Your July 16th letter also notes that “the White House suggests that investing in PRC companies presents an unnecessary and unreasonable risk because PRC companies do not comply with either SEC or PCAOB reporting requirements and do not provide transparency in their reporting of financial and other matters.” NRRIT recognizes that, like other non-U.S. companies, in both developed and emerging markets, PRC companies are not required to comply with SEC and PCAOB reporting requirements. NRRIT hires active managers to invest in PRC and other emerging market companies, and these managers have country-specific expertise with respect to economic and regulatory environments, as well as applicable accounting standards and financial disclosure requirements. The managers hired by the Trust are qualified and experienced and, although they acknowledge some risks related to investing in China, they generally believe these risks are not unique to China but, rather, are shared with many other emerging market, and some developed market, countries. For example, they widely believe that risks related to financial statement quality are not very different for PRC companies than they are for foreign companies in many other countries. In fact, many of the Trust’s investment managers believe that PRC accounting standards are quite similar to those in other countries and generally are consistent with global accounting standards, and the mere absence of PCAOB oversight does not mean that accounting or auditing standards are inferior.

With a large majority of major U.S. pension funds also invested in China, it does not appear that the lack of PCAOB jurisdiction is viewed within the U.S. institutional investment community as a deterrent to investing there. NRRIT has hired investment managers with strong track records of investing in non-U.S. markets, including China, and we believe they are well equipped to evaluate the risks and merits of investing in PRC companies.

You also noted in your July 16th letter that the White House has raised the possibility of future sanctions or boycotts against the PRC, which could have significant financial impacts and “raise serious fiduciary issues.” NRRIT is statutorily required to diversify its portfolio, and has affirmatively decided to invest in emerging markets, including China. While investing in emerging market countries such as China is part of a



prudent, sound diversification strategy, we are in the process of evaluating our asset allocation, something we have done regularly since the Trust's inception, and will make decisions about continued investments in China and other emerging markets based on our analysis and review.

NRRIT conducts significant diligence before hiring investment managers and, once hired, continually monitors their performance, operations, and adherence to their investment strategies. These managers continually evaluate potential political and economic risks when making decisions about whether to invest in both U.S. and non-U.S. companies, and these considerations inform their investment decisions. Like other U.S.-based pension funds and investment managers investing on their behalf, NRRIT and its managers are keenly aware of the growing tensions between the United States and China, and the possible impacts on PRC companies, U.S. and non-U.S. companies conducting business in China, and the broader economies of both countries. Any White House sanctions or boycotts against the PRC likely would have far-reaching impacts on the global economy, as would any retaliatory actions taken by China against U.S. companies. We are confident in our ability to work with our managers, who have specific expertise and experience related to investing in China and in companies that do business in China, to evaluate the likelihood of such risks and to react properly if it appears that such government actions will adversely impact investment returns.

Based on our initial examination of projections of industry experts and the investment practices of peer pension funds, we believe NRRIT's and its managers' evaluations of the return projections and risk levels with respect to investments in PRC companies have justified investing in China. Since the inception of NRRIT in October 2002, China has been one of the best performing major equity markets in the world, with an annualized return of 13.4%. Nonetheless, we will continue to evaluate a number of issues with respect to investments in PRC companies to ensure that continued investment is similarly justified. We are conducting a thorough, open-minded, deliberative review, and will ensure that we are employing sound fiduciary practices.

We appreciate your acknowledgment that NRRIT is an independent non-governmental entity with broad statutory authority to make independent investment decisions as to how to invest the Trust's assets. This independent status is a direct result of Congress's intent that the

investment of Trust assets should be free from political influence. Our Trustees are not only fiduciaries with a duty to manage the assets of the Trust solely in the interest of the participants and beneficiaries of railroad retirement; six of the seven Trustees also represent the interests of rail labor and rail management, who collectively have funded the Trust and have the most to gain or lose from the Trust's performance. We know you recognize how seriously we take our fiduciary responsibility, and how committed we are to securing the future of railroad retirement for the constituencies we represent. We believe these alignments of interests have served the Trust well in its nearly twenty years of existence, and will continue to going forward.

Thank you for your continued openness in communicating with us about any inquiries or concerns of yours or the Administration. We look forward to continued cooperation on this and other issues.

NRRIT

Respectfully,



Mary S. Jones

Chair of the Board of Trustees

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