

The T&N UK Asbestos Trust
and
The T&N EL Trust
Trustee's Annual Report 2018

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1. Introduction

1.1 Executive summary

The purpose of this report is to provide an update to the key stakeholders of the T&N UK Asbestos Trust and the T&N EL Trust (the **Trusts**). The Trusts consist of five separate funds (the **Funds**). Under the terms of the Trust Deed, the Funds must remain separate and cannot be co-mingled.

This report is the twelfth annual report issued by The T&N Asbestos Trustee Company Limited (the **Trustee**). This report contains terms which are defined in the Trust Distribution Procedures (the **TDP**).

This report includes detail in relation to the operational, financial and legal matters which have been of relevance to the Trusts throughout the period. This report should be read in conjunction with the Trustee's previous reports.

The highlights of this report are as follows:

- i During the year the number of Trust Claims received and paid by the Trusts can be summarised as follows:

	Received	Paid/Settled
T&N excluding Cape Trust Claims	78	71
T&N – Cape Trust Claims	384	235
EL Scheme	17	28
Chester Street	99	107
Total	578	441

Note: Excludes second dividends

Payments to Trust Claimants can be summarised as follows.

£ million

T&N – first dividend	2.94
T&N – Cape Trust Claims	0.38
Chester Street – first dividend	0.60
T&N EL Trust – first dividend	0.98
T&N Hercules – first dividend	0.25
T&N Hercules – second dividend	1.08
Chester Street Hercules – first dividend	1.14
Chester Street Hercules – second dividend	0.09
Total	7.46

- ii During the year the investment return achieved by the Trusts was 3.6%, which is just below the Trusts' target return of 4%. Equity markets were volatile over the period and impacted the performance of some of the investments. The Trustee was disappointed with the performance of the Invesco Perpetual investment and with supporting advice from Mercer (formerly JLT Employee Benefits) concluded that the entire holding should be sold.

2. T&N Fund/T&N EL Trust Claims

This section relates to Trust Claims against the above two Funds and excludes Chester Street Claims, which are shown in section 3 of this report.

2.1 Trust Claims analysis

The Trust Claims submitted in the first 12 years of operation are summarised below:

Status	As at 11 October 2017	As at 11 October 2018
Paid	3,056	3,436
Awaiting further information from Trust Claimants	44	93
Pending issue of Admission Notice	3	32
Withdrawn	90	96
Rejected	249	261
Total	3,442	3,918

During the year the Trusts received 385 Cape Trust Claims (see section 2.5), all of which have been paid or are awaiting payment.

2.2 Payments to Trust Claimants

During the year a total of £8.40 million was paid out in respect of Trust Claims. The total paid out during the first 12 years is £97.26 million and can be summarised as follows:

£ million	As at 11 October 2017	Paid during year	As at 11 October 2018	% of total
Payments to Trust Claimants	82.76	7.46	90.22	92.8
Trust Claimants' legal fees	5.04	0.72	5.76	5.9
Trust Claimants' medical costs	1.03	0.22	1.25	1.2
Other	0.03	-	0.03	0.1
Total	88.86	8.40	97.26	100.00

2.3 Rejected claims

During the year, 12 Trust Claims were rejected, making a total of 261 rejected Trust Claims over the first twelve years of operation. This represents 6.7% of the total number of Trust Claims received. All rejected Trust Claims are reviewed and discussed in detail at a meeting of the Directors of the Trustee. A detailed explanation of the reason for rejection is provided to the Trust Claimant at the time of rejection.

The reasons for rejection are shown below:

Reason for rejection	As at 11 October 2017	Activity	As at 11 October 2018
Failure to satisfy exposure criteria	78	5	83
Failure to satisfy medical criteria	58	2	60
No response to requests for further information	40	4	44
Trust Claimant had already been compensated in full	21	1	22
Exposure pre-1965 and not within Margerison/Hancock	23	-	23
Limitation grounds	21	-	21
Lung cancer not meeting Helsinki criteria	5	-	5
Other	3	-	3
Total	249	12	261

2.4 Cape Trust Claims.

The T&N Fund continues to receive a significant number of Cape Trust Claims from India, all relating to the operation of Hindustan Ferodo and Asbestos Cement Limited.

All of the Indian Cape Trust Claimants have opted for an Expedited Review and in accordance with legal advice received by the Trustee, have been subject to a discount of 50% for claims from ex-employees and 75% for claims from household members. These discounts reflect the significant litigation risks associated with Trust Claims of this nature and are based on advice received from David Allan QC.

During the year a further 385 Cape Trust Claims have been received. Payments to these Claimants total £0.38 million and associated medical and legal fees were £0.31 million. Since the inception of the Trusts a total of 1,641 Cape Trust Claims have been received. Payments to these Claimants totalled £5.95 million and associated medical and legal fees totalled £2.13 million.

3. Chester Street Fund

The purpose of this fund is to provide compensation to Chester Street, an insolvent insurer, and related parties. This fund provides a contribution towards Trust Claims made against T&N and other Federal-Mogul companies, as joint tortfeasors, by Chester Street.

The Trust Claims submitted to the Chester Street Fund in the twelve years of the Trusts' operation can be summarised as follows:

Trust Claims	As at 11 October 2017	As at 11 October 2018
Paid/established	641	729
British Shipbuilders' settlement	2,219	2,219
Awaiting further information	3	5
Rejected/Withdrawn	157	165
Total	3,020	3,118

During the year a total of £0.60 million has been paid out in respect of Chester Street Trust Claims.

During the year eight Chester Street Trust Claims were rejected.

4. Dividend policy

The following dividend rates are currently in force following our Actuarial Review of 2016.

Fund	Initial	Second	Total
T&N EL Trust	47	3	50
T&N Fund	20	3	23
Chester Street Fund	23	3	26
TBA Industrial Products	3	-	3
Federal-Mogul Friction Products	70	10	80
T&N Chester Street Fund	2	7	9

5. Trusts' investments

5.1 Investment strategy

The Trustee continues to adopt a prudent investment policy whilst remaining conscious of the long-term nature of the Trusts. The Trustee receives advice from its investment adviser Mercer who also provide quarterly investment performance updates that are shared with the Trustee Advisory Committee.

During the year the Trusts had funds invested in the following managed investment products:

- BlackRock Dynamic Diversified Growth Fund (**BlackRock DDGF**). The objective of this fund is to seek capital growth by investing globally in a diversified portfolio of assets.

- BlackRock Strategic Alternative Income Fund (**BlackRock SAIF**). This fund invests in infrastructure debt, renewable energy, real estate debt and private credit to deliver predictable long-term cash flows.
- M&G Real Estate Debt Fund (**M&G REDF**). This fund concentrates on lending across the capital structure of high-quality real estate investments throughout Europe.
- Invesco Global Targeted Returns Fund (**Invesco**). This fund is a multi-asset investment product which uses a range of investment ideas with the aim of targeting long-term performance.
- Pictet Dynamic Asset Allocation Fund (**Pictet**). This fund aims for long-term equity like returns with less risk than equities.

Following an investment review which took place after the year end, the £7.28 million holding in the Invesco Global Targeted Return Fund was sold due to its disappointing performance.

5.2 Funds held at year end

At the end of the year total Trusts' funds were allocated as follows:

£m.	Total	%
Blackrock DDGF	11.22	22
Blackrock SAIF	4.68	9
M&G REDF	8.83	16
Invesco Perpetual	7.28	13
Pictet	20.83	38
Cash	1.72	2
Total	54.56	100

The analysis of cash and investments by Fund is as follows:

Fund	Amount (£ million)
T&N Fund	27.54
FMFP Fund	1.30
TBA Fund	0.58
Remuneration Fund	0.42
T&N EL Trust	10.64
Chester Street Fund	14.08
Total	54.56

5.3 Investment performance

The Trusts' investment cash returns and valuations can be summarised as follows:

£ million	Valuation 11 October 2017	Investment/ (Withdrawals)	Investment returns	Valuation 11 October 2018
BlackRock DDGF	15.03	(4.06)	0.25	11.22
BlackRock SAIF	0.88	3.80	-	4.68
M&G REDF	8.93	(1.02)	0.92	8.83
Pictet	20.51	-	0.32	20.83

Invesco	9.88	(2.50)	(0.10)	7.28
Cash	3.91	(2.19)	-	1.72
Total	59.14	(5.97)	1.39	54.56

During this year the return quoted by the investment managers on the Trusts' investments was as follows:

	%
BlackRock DDGF	4.2
BlackRock SAIF	-*
M&G REDF	5.6
Pictet	2.9
Invesco Perpetual	(1.1)

* Returns not quoted until 31 December 2018

The return achieved during the year was 3.6% which is just below the Trusts' target return of 4% which is incorporated in the actuarial model.

6. Professional costs

During the year the legal and other professional fees paid by the Trusts are detailed as follows:

£000	T&N	Chester St	T&N EL
Legal & professional fees	67	34	35
Audit fees	4	4	7
Total	71	38	42

Claims management and Trustee fees incurred in the year to 11 October 2018 are as follows:

£000	2018	2017
Chester Street Fund	138	151
T&N EL Scheme Trust	88	153
T&N Remuneration Fund	286	337
Total	512	641

All these fees were paid to AlixPartners Services UK LLP (**AlixPartners**).

Claims management and Trustee fees in respect of the Chester Street Fund and the T&N EL Trust are drawn from the relevant Fund and approval is required from the appropriate Trust Advisory Committee.

7. Trusts' structural changes

During 2018 the Trustee entered discussions with AlixPartners about the future structure of the Trusts and how they should operate going forward. An agreement was reached on 31 March 2019 whereby AlixPartners transferred for a nominal amount the T&N Asbestos Trustee Company Limited to Amianto Operating Company Limited (a company limited by guarantee and controlled by James Gleave and Anne O'Keefe).

The effect of this would be that the Trusts would continue to operate as before, but operating expenses would be met on a cost basis rather than professional fees charged by AlixPartners. We are confident that, on a long-term basis, this will lead to a substantial reduction in the operating costs of the Trusts.

The agreement completed on 18 June 2019 and more details of this will be covered in next year's annual report. We believed that it was appropriate to delay issuing this report until completion of this deal was achieved.

8. Trusts' financial statements

The Trusts' audited financial statements are available on request.

9. Contact details

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