

The T&N UK Asbestos Trust
and
The T&N EL Trust

Trustee's Report for the 2 years to 30
September 2020

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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 fourteenth 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**).

As a consequence of the COVID-19 pandemic (**Pandemic**) the Trustee agreed with the Trustee Advisory Committee (**Committee**) that it would not be appropriate to compile a full report for the 12 months to 30 September 2019, although summary financial information was provided. Accordingly, this report includes detail in relation to the operational, financial and legal matters for the two years to 30 September 2020.

The highlights of this report are as follows:

- i During the two years 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	152	128
T&N – Cape Trust Claims	870	928
EL Scheme	67	55
Chester Street	225	204
Total	1,314	1,315

Note: Excludes second dividends

Payments to Trust Claimants in the period 11 October 2018 to 30 September 2020 can be summarised as follows.

£ million

T&N – first dividend	6.14
T&N – Cape Trust Claims	1.79
Chester Street – first dividend	1.89
T&N EL Trust – first dividend	2.59
T&N Hercules – first dividend	0.67
T&N Hercules – second dividend	0.86
Chester Street Hercules – first dividend	0.14
Chester Street Hercules – second dividend	0.18
Total	14.26

Payments to Trust Claimants and associated fees and expenses since the inception of the Trusts 14 years ago can be summarised as follows:

£ million	As at 11 October 2018	Paid	As at 30 September 2020	% of total
Payments to Trust Claimants	90.22	14.26	104.48	92.0
Trust Claimants' legal fees	5.76	1.62	7.38	6.5
Trust Claimants' medical costs	1.25	0.36	1.61	1.4
Other	0.03	-	0.03	0.1
Total	97.26	16.24	113.50	100.0

- ii During the two-year period, the investment return achieved by the Trusts was 1.75% on an annualised basis. As a consequence of the Pandemic the performance of the Trusts' investment portfolio was subject to considerable volatility. The Trustee was concerned about this situation and concluded it was appropriate to commission a limited actuarial review. Payments were suspended for a three-month period from 1 October 2020. The conclusion of the review was that whilst some concern over investment performance was warranted, it was not sufficient to justify any change in the payment percentages. Payments to Trust Claimants recommenced in January 2021 with dividend levels being maintained. This is discussed in more detail at Section 4.
- iii On 18 June 2019, the transfer of the ownership of the Trustee from AlixPartners to Amianto Operating Company Limited (**Amianto**) was concluded. As a consequence, two of the directors of the Trustee company retired from AlixPartners and became directors of Amianto. Amianto is a company limited by guarantee. The contracts of the Trust staff were automatically transferred to Amianto under TUPE Regulations. Further details of this transaction are shown at Section 7.

The directors of Amianto would like to place on record their appreciation of the support they have received from AlixPartners both during the course of their ownership of the Trustee company and the subsequent sale. In particular their recognition that the plight of the T&N Asbestos victims warranted a relaxation of their normal commercial criteria for assignment acceptance.

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 14 years of operation are summarised below:

Status	As at 11 October 2018	As at 30 September 2020
Paid	3,436	4,477
Awaiting further information from Trust Claimants	93	38
Pending issue of Admission Notice	32	49
Withdrawn	96	116
Rejected	261	281
Total	3,918	4,961

2.2 Rejected claims

During the two year period, 20 Trust Claims were rejected, making a total of 281 rejected Trust Claims over the first fourteen years of operation. This represents 5.7% 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 2018	Activity	As at 30 September 2020
Failure to satisfy exposure criteria	83	8	91
Failure to satisfy medical criteria	60	6	66
No response to requests for further information	44	1	45
Trust Claimant had already been compensated in full	22	-	22
Exposure pre-1965 and not within Margereson/Hancock	23	1	24
Limitation grounds	21	1	22
Lung cancer not meeting Helsinki criteria	5	-	5
Other	3	3	6
Total	261	20	281

2.3 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 two years a further 870 Indian Cape Trust Claims have been received. Payments to these Trust Claimants totalled £1.79 million and associated medical and legal fees totalled £1.13 million. Since the inception of the Trusts a total of 3,381 Indian Cape Trust Claims have been received and four of those rejected. Payments to these Trust Claimants totalled £7.74 million and associated medical and legal fees totalled £3.26million.

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 fourteen years of the Trusts' operation can be summarised as follows:

Trust Claims	As at 11 October 2018	As at 30 September 2020
Paid/established	729	931
British Shipbuilders' settlement	2219	2,219
Awaiting further information	5	3
Rejected/Withdrawn	165	186
Total	3,118	3,339

During the two years a total of £1.89 million has been paid out in respect of Chester Street Trust Claims.

During the two years 21 Chester Street Trust Claims were rejected.

4. Dividend policy

During 2020, in the light of investment market volatility caused by the Pandemic, the Trustee believed it was appropriate to commission a limited actuarial review to consider the current dividend rates. The review did not address a detailed forecast of the future level of claims but rather concentrated on whether the assumptions underlying the 2016 forecast could still be relied upon to give a broad indication of the likely level and type of claim to be expected. In accordance with previous reviews, payments were suspended for a three-month period. The conclusion of the review was that the current dividend level were still appropriate and accordingly payment recommenced on 1 January 2021.

The dividend levels at 30 September 2020 were as follows:

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	40	-	40
T&N Hercules Fund	2	7	9
Chester Street Hercules Fund	2	7	9

Under the terms of the TDP the Trustee is obliged to commission a full actuarial review of the anticipated value of future claims every five years. The next review will therefore commence on 1 October 2021 and may impact on the level of future dividends.

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 Committee.

As at 30 September 2020, 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.
- M&G Alpha Opportunities Fund (**M&G Alpha Opps**) This is a bond fund which aims to maximise total returns which are consistent with prudent investment management.

During the period, the Trustee concluded that neither the Invesco Global Targeted Returns Fund nor the Pictet Dynamic Asset Allocation Fund were performing up to its expectations. Accordingly, it realised its investments in these two funds and reallocated this capital to the remaining two asset managers across four different investment products.

5.2 Funds held at year end

At the end of the year the Trusts' allocation of its invested funds was as follows::

£m.	Total	%
Blackrock DDGF	5.4	15
Blackrock SAIF	9.8	28
M&G REDF	15.1	42
M&G Alpha Opps	5.4	15
Total	35.7	100

The analysis of investments by Fund is as follows:

Fund	Amount (£ million)
T&N Fund	17.6
FMFP Fund	0.4
TBA Fund	0.3
T&N EL Trust	8.3
Chester Street Fund	9.1
Total	35.7

5.3 Investment performance

The movement in the Trusts' investments and cash since the last report can be summarised as follows:

£ million	Valuation 11 October 2018	Investment/ (Withdrawals)	Investment returns	Valuation 30 Sept 2020
BlackRock DDGF	11.22	(6.05)	0.25	5.42
BlackRock SAIF	4.68	5.12	-	9.80
M&G REDF	8.83	5.95	0.30	15.08
M&G Alpha Opps	-	5.00	0.43	5.43
Pictet	20.83	(20.71)	(0.12)	-
Invesco	7.28	(7.03)	(0.25)	-
Cash	1.72	4.95	-	6.67
Total	54.56	(12.77)	0.61	42.40

The most recent targeted return for each investment manager is set out below:

	%
BlackRock DDGF	3.6
BlackRock SAIF	5.0
M&G REDF	7.2
M&G Alpha Opps	5.0

Over the last two years the Trusts' investment returns have been impacted by two main factors.

The first was the underperformance of the investments held with Invesco Perpetual and Pictet which were divested completely by 30 September 2020.

Secondly, the Pandemic's impact to global markets was significant and the effect of this was evident to varying degrees in each of the Trusts' investments. Since the sharp market falls in March 2020 the Trusts' investments have recovered, but considerable uncertainty remains in global markets.

The overall return on the total investment portfolio over the two years was as follows:

Period to 30 September 2019	2.1%
Year to 30 September 2020	1.4%

6. Professional costs

During the two year period 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	194	59	57
Audit fees	4	3	7
Total	198	62	64

Claims management and Trustee fees incurred in the two-period year were as follows:

£000	2019	2020
Chester Street Fund - AlixPartners	52	-
Chester Street Fund - Amianto	37	111
T&N EL Scheme Trust - AlixPartners	45	-
T&N EL Scheme Trust - Amianto	37	86
T&N Remuneration Fund - AlixPartners	201	
T&N Asbestos Trust - Amianto	116	228
Total	488	425

7. Trusts' structural changes

In our last report we provided details about the agreement to transfer, for a nominal amount, the shares in the Trustee to Amianto. This agreement completed on 18 June 2019. For a period of months after completion the Trustee worked with AlixPartners to ensure that all commercial and financial agreements were transferred to Amianto. In addition, the Trustee required new banking facilities which had to replicate, as closely as possible, the existing banking facilities. These arrangements were all finalised by the end of February 2020 and with effect from this date AlixPartners ceased to have any involvement in the Trusts.

Whilst the legal structure of the Trusts has changed, in practical and operational terms, the transfer of the ownership of the Trustee company has had little effect on the management of the Trusts. They continue to operate as before, but operating expenses are now met on a cost basis rather than by the payment of professional fees. We are confident that, on a long-term basis, this will lead to a substantial reduction in the operating costs of the Trusts.

In order to synchronise the Trust's year end with the quarterly reports received from the Trusts advisers' and investment managers, the Trustee has concluded it is appropriate to change the financial and reporting year-end to 30 September.

8. Trusts' financial statements

Attached at Appendices A to D are copies of the Trusts' financial statements for the period 12 October 2018 to 30 September 2019 and the year to 30 September 2020.

9. Contact details

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