

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

Trustee's Report for the year to 30 September
2022

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Appendices

The appendices to this report contain the audited financial statements for the year ended 30 September 2022:

Appendix A: The T&N UK Asbestos Trust

Appendix B: The T&N EL Trust

1. Executive summary

1.1 Overview

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 T&N UK Asbestos Trust consist of four separate funds (the **Funds**) which hold cash and investments. Under the terms of the Trust Deed, the Funds must remain separate and cannot be co-mingled.

This report is the sixteenth 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**)

1.2 Claims data

During the year the number of Trust Claims received and paid by the Trusts was as follows:

	Received	Paid
T&N excluding Cape Trust Claims	85	69
T&N – Cape Trust Claims	203	164
EL Scheme	18	12
Chester Street	100	106
Total	406	351

Note: Excludes second dividends

Payments to Trust Claimants for the year ended 30 September 2022 were as follows:

£ million	Initial	Second	Total
T&N Fund	2.26	0.50	2.76
T&N EL Trust	1.23	0.25	1.48
Chester Street	0.82	0.08	0.90
Federal Mogul Friction Products	0.02	-	0.02
TBA Industrial Products	0.07	0.05	0.12
T&N Hercules Fund	0.41	0.21	0.62
Chester Street Hercules Fund	0.16	0.07	0.23
T&N Fund – Cape Trust Claims	0.45	0.08	0.53
Total	5.42	1.24	6.66

The size of the Hercules Fund and Chester Street Hercules Fund are determined by an actuarial assessment of the surplus funds in the Chester Street Fund, once all its liabilities have been met. The quantum of these Funds is calculated by the Trustee's actuarial advisers. This process follows the previously reported Court consent, received by the Trustee in September 2016.

The T&N Hercules Fund and Chester Street Hercules Fund do not hold any cash or investments. When claims fall due from these two Funds the cash is drawn directly from the Chester Street Fund which holds the surplus.

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

£ million	As at 1 October 2022	Paid	As at 30 September 2022	% of total
Payments to Trust Claimants	108.41	6.66	115.07	92
Trust Claimants' legal fees	7.82	0.42	8.24	7
Trust Claimants' medical costs	1.68	0.12	1.80	1
Total	117.91	7.20	125.11	100

1.3 Investment performance

During the year, the investment return achieved by the Trusts was negative 3.4%.

The Trusts invested with four different investment managers during the year and the allocation of capital at the year-end is summarised as follows:

£ million	Total	Target return
Blackrock DDGF	10.25	4.2%
Blackrock SAIF	7.34	5.0%
M&G REDF	8.71	5.6%
M&G Alpha Opps	7.64	5.0%
Cash	0.67	-
Total	34.61	

The Trusts' investments are held in the individual Funds as follows:

£ million	
T&N Fund	17.76
T&N EL Trust	8.06
Chester Street Fund	7.98
FMFP Fund	0.39
TBA Fund	0.42
Total	34.61

The Trustee remains concerned at the current volatility in investment markets and how this may impact long term returns and future dividend payments. The future rate of return remains at 4% per annum. Since the year end investment returns have improved. We continue to review our investment strategy with our advisers Mercer, and we concur with their views that last year's poor performance is reflective of underlying market movements rather than the performance of the individual managers. We have concluded that the past few years lower than forecast investment returns will lead to a reduction in the payment percentages.

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

2.1 Trust Claims analysis

The Trust Claims submitted in the first 17 years of operation are summarised below:

Status	As at 30 September 2021	As at 30 September 2022
Paid	4,646	4947
Awaiting further information from Trust Claimants	23	24
Pending issue of Admission Notice	15	2
Withdrawn	124	129
Rejected	292	300
Total	5,100	5,402

2.2 Rejected claims

During the year 8 Trust Claims were rejected, making a total of 300 rejected Trust Claims over the first 17 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 30 September 2021	Activity	As at 30 September 2022
Failure to satisfy exposure criteria	96	5	101
Failure to satisfy medical criteria	69	2	71
No response to requests for further information	45	0	45
Trust Claimant had already been compensated in full	22	1	23
Exposure pre-1965 and not within Margereson/Hancock	24	0	24
Limitation grounds	24	0	24
Lung cancer not meeting Helsinki criteria	6	0	6
Other	6	0	6
Total	292	8	300

There was one referral to the Expert during the year.

The referral was in respect of whether previous damages awarded by the Trusts should be deducted from a subsequent Trust Claim which concerned a more serious disease.

The Expert determined that the deduction of previous awards was correct and agreeing with the original decision made by The Trustee.

2.3 Cape Trust Claims

Cape Trust Claims from are received from two former T&N subsidiaries: Hindustan Ferodo and Asbestos Cement.

Initially claims were submitted from Hindustan Ferodo, based in Mumbai, that was sold to Hindustan Composites at the beginning of 1993.

Subsequently claims have been submitted from Asbestos Cement which had factories in Mumbai, Kolkata, Kymore and Coimbatore. This business was sold to Eternit Everest at the beginning of 1988. Most Indian Cape claims received in the last two years have been from the Asbestos Cement factories with fewer coming from Hindustan Ferodo

After a pause in submissions during the Pandemic, Cape Trust Claims from India recommenced during the financial year and 203 were received. Most Cape Trust Claims being submitted are now household exposure claims to which a 75% discount is applied for litigation risk. Consequently, whilst Cape Trust Claim numbers from India are high, individual payments are relatively low.

Over 80% of Cape Trust Claimants have developed mild asbestosis. Additionally, there are cases of moderate and severe asbestosis claims plus a very small amount of lung cancer Cape Trust Claims.

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 13 years of the Funds' operation can be summarised as follows:

Trust Claims	As at 30 September 2021	As at 30 September 2022
Paid/established	1,013	1,115
British Shipbuilders' settlement	2,219	2,219
Awaiting further information	10	1
Rejected/Withdrawn	190	195
Total	3,432	3,530

During the year a total of £0.9 million has been paid out in respect of admitted Chester Street Trust Claims. This is significantly more than our actuaries had forecast and was driven predominantly by mesothelioma claims being double the forecast level.

The Trustee notes that a strong relationship has been developed with the claims handling team at PwC. It is now evident that claims are being submitted promptly resulting in faster payments to claimants in respect of this type of claim. We are trying to establish whether claims are being processed faster and therefore there will be less in the future or whether there are more claims than we had expected.

4. Dividend policy

The dividend levels have remained unchanged throughout the year. We are currently completing a review process based on recent experience to establish if these rates remain appropriate.

Fund	Initial	Second	Total
T&N Fund	25	2	27
T&N EL Trust	66	2	68
Chester Street Fund	28	2	30
FMFP Fund	20	-	20
TBA Fund	10	-	10
T&N Hercules Fund	6	-	6
Chester Street Hercules Fund	6	-	6

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 2022, the Trusts had funds invested in the following managed investments:

- 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.

5.2 Funds held at year end

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

£ million	Total	%
Blackrock DDGF	10.25	30%
Blackrock SAIF	7.34	22%
M&G REDF	8.71	26%
M&G Alpha Opps	7.64	22%
Total	33.94	100%

The analysis of investments by Fund is as follows:

£ million

T&N Fund	17.57
T&N EL Trust	7.78
Chester Street Fund	7.88
FMFP Fund	0.35
TBA Fund	0.36
Total	33.94

5.3 Investment performance

During the year the Trusts' investments lost 3.4%

The table below sets out the financial return for the Trusts' investments during the year:

£ million	As at 30 September 2021	As at 30 September 2022
Investment income	1.56	0.59
Change in market value of investments	1.46	(1.28)
Total	3.02	(0.68)

The most recent targeted return for each investment manager is set out below. During the financial year, except for the M&G REDFs, the actual rate of return achieved during the past year has been below target.

	%
BlackRock DDGF	4.2
BlackRock SAIF	5.0
M&G REDF	5.6
M&G Alpha Opps	5.0

The BlackRock DDGF and M&G Alpha Opps investments are quoted products which can be traded and so holdings vary with the cash requirements of the Trusts. The quoted price of these investments reflects the investment gain or loss.

The M&G REDFs and BlackRock SAIF investments are long term commitments which pay regular cash returns that are used to meet cash commitments or are alternatively reinvested.

The Trusts' year end coincided with a period of significant instability for investment markets caused by the UK Government's "mini-budget" announced on 23 September 2022. A sense of stability was restored after the Trusts' year end and so this volatility impacted valuations used at the Trusts' reporting date.

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	69	34	53
Audit fees	6	2	8
Actuarial fees	50	25	25
Total	125	61	86

Actuarial fees relate to the five-year review we completed during the early part of this financial year.

7. Claims management fees

During the year operational costs met by Amianto Operating Company Limited were funded as follows:

£000	
T&N Fund	243
T&N EL Scheme Trust	67
Chester Street Fund	51
Total	361

The Trustee constantly seeks opportunities to reduce costs and claims management fees, and these have reduced by 15% year on year.

This reflects the gradual reduction of claims being received and the hours required to process them. In a high inflation environment, it will be difficult to continue this level of cost reduction in the coming year.

8. Contact details

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Should you wish to discuss any aspect of this report please do not hesitate to contact us.

