

The T&N UK Asbestos Trust

The T&N EL Trust

Trustees' report for the year to 30 September 2023

Executive summary

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 seventeenth report issued by the T&N Asbestos Trustee Company Limited (the **Trustee**) and covers the financial year to 30 September 2023 (**FY23**). This report contains terms which are defined in the Trust Distribution Procedures (the **TDP**)

Claims

- During the year 736 Trust Claims were received and 524 settled for payment
- Payments to Trust Claimants totalled £7.25m, which was an increase of 9% on the previous year. Whilst claims received into the main T&N Fund fell, the other Funds all saw an increase in claim numbers
- Notably, Chester Street Fund Trust Claims were significantly ahead of forecasts and the cash implications of this exacerbated by a significant increase in mesothelioma based claims
- The Trusts continue to receive Cape Trust Claims from India, with 532 received during the year. Whilst claim numbers are high, individual payments are relatively small with £0.6m being paid during the year. Nevertheless, handling these claims does require a considerable administration commitment from the team

Investments

- During the year, the Trusts' investments gained 7.5%
- Investment returns continue to be volatile in markets that have seen considerable disruption since the global pandemic in March 2020
- Reflecting on this, the Trustee has undertaken a review of its investment strategy with support from Mercer. The aim has been to secure more predictable returns from products which can exploit current higher interest rates

Dividend policy

- The impact of Trust Claims being ahead of forecasts in some categories combined with volatile investment returns necessitated a review by the Trustee of the dividend policy during the summer of 2023
- Following advice from Willis Towers Watson (**the Actuary**) the Trustee has implemented a new dividend policy from 1 October 2023. The key change to the Trustee policy is ceasing second dividends with the aim of giving more money, sooner, to Trust Claimants

Administration of the Trusts

- The Trustee is focussed on controlling costs to maximise benefits to Trust Claimants. Operating costs have and continue to be impacted by cost inflation
- In FY23 administration fees totalled £337,000 which was a 7% reduction on the previous year

Claims summary (1)

Overview of Trust Claims in FY23

- During the year, the Trusts received 736 Trust Claims and settled 524
- Trust Claims payments were suspended from 1 August 2023 for a period of two months. This enabled work to be completed on implementing the new dividends set to apply from 1 October 2023
- In terms of Trust Claims activity, we note the following:
 - The T&N Fund (non-Cape Trust Claims)received 68 Trust Claims, which was a fall of 17 on the previous year
 - T&N Cape Trust Claims received totalled 532, which was more than double the previous year. These claims are received in batches, so comparison on a linear basis is not applicable
 - T&N EL Trust Claims increased to 25, from 18 the previous year
 - Chester Street Fund Claims increased to 111 from 100 the previous year
- Overall, £7.25m was paid to Trust Claimants during FY23, which was an increase on the £6.66m paid during the previous year

Claims activity in FY23

	Received	Paid
T&N excluding Cape Trust Claims	68	71
T&N - Cape Trust Claims	532	321
T&N EL Trust	25	22
Chester Street	111	110
Total	736	524

Payments to Claimants during FY23

£ million	Initial	Second	Total
T&N Fund	2.46	0.67	3.13
T&N EL Trust	0.98	0.44	1.42
Chester Street	0.77	0.15	0.92
FMFP Fund	0.04	-	0.04
TBA Fund	0.08	0.06	0.14
T&N Hercules Fund	0.56	0.18	0.74
Chester Street Hercules Fund	0.16	0.11	0.27
T&N Fund - Cape Trust Claims	0.57	0.02	0.59
Total	5.62	1.63	7.25

Claims summary (2)

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 Chester Street Fund dividend is determined by the T&N Fund dividend which is set following advice from the Actuary
- 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 the Actuary had forecast and was driven predominantly by Trust Claim numbers being higher than expected, particularly those in relation to mesothelioma
- The Trustee notes that a good relationship has been developed with the claims handling teams at PwC and Clyde & Co. It is evident that claims are being processed, and therefore submitted faster than previously, resulting in more timely payments to Trust Claimants. Given this it is presumed, but not certain, that there will be less claims in the future

Hercules Fund and Chester Street Hercules Fund

- These Funds are driven by the surplus forecast in the Chester Street Fund
- The reliability of forecast data in determining these Funds when reviewed during 2023 did not give the Trustee absolute certainty that Chester Street Trust Claims could be met in full and so both the Funds will no longer pay dividends

- Over the life of the Trusts the Trustee's successful negotiation to release the Chester Street Fund surplus has seen an additional £11m being paid to Trust Claimants

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
- 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. For context whilst Cape Trust Claims are high in number, they only accounted for £0.6m of payments in FY23
- The first Cape Trust Claim where the Cape Trust Claimant had developed mesothelioma was received

Claims summary (3)

Trusts since inception

- Trust Claims submitted to the Trustee in the last 18 years of operation are summarised in the two top tables across
- At FY23, over 90% of T&N Trust Claims submitted to the Trusts were accepted and paid

Rejected Trust Claims

- During the year 8 Trust Claims were rejected, making a total of 308 rejected Trust Claims over the first 18 years of operations
- 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
- There were no referrals to the Expert during FY23

T&N Trust Claims handled by the Trustee

Claim status	At 30 Sep 2022	At 30 Sep 2023
Paid	4,947	5,301
Awaiting further information from Trust Claimants	24	26
Pending issue of Admission Notice	2	1
Withdrawn	129	132
Rejected	300	308
Total	5,402	5,768

Chester Street Trust Claims handled by the Trustee

Chester Street Fund - Trust Claims	At 30 Sep 2022	At 30 Sep 2023
Paid/established	1,115	1,205
British Shipbuilders Settlement	2,219	2,219
Awaiting further information	1	-
Rejected/Withdrawn	195	202
Total	3,530	3,626

Rejected Trust Claims

Reason for rejection	At 30 Sep 2022	Activity	At 30 Sep 2023
Failure to satisfy exposure criteria	101	6	107
Failure to satisfy medical criteria	71	1	72
No response to requests for further information	45	-	45
Trust Claimant already compensated in full	23	-	23
Exposure pre-1965 and outside Mergereson/Hancock	24	-	24
Limitation grounds	24	1	25
Lung cancer not meeting Helsinki criteria	6	-	6
Other	6	-	6
Total	300	8	308

Investment summary

Overview

- During the year, the Trusts' investments gained 7.5%. Mercer continue to provide investment advice
- The Trusts had holdings in the following investments at 30 September 2023
 - BlackRock Dynamic Diversified Growth Fund (**BlackRock DDGF**). The objective of this quoted fund is to seek capital growth by investing globally in a diversified portfolio of assets
 - BlackRock Strategic Alternative Income Fund (**BlackRock SAIF**). This private 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 private 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 quoted bond fund which aims to maximise total returns which are consistent with prudent investment management

New investment strategy

- Whilst the risk in the investment strategy has been relatively low in recent years, the volatility in returns has exacerbated the difficulties in forecast modelling
- With support from Mercer the Trustee is completing a review of its investment strategy with the intention to move to investment products which offer stable returns and sufficient liquidity

Summary of investments

£ million	Holding	Target return	Allocation
BlackRock DDGF	0.46	4.2%	2%
BlackRock SAIF	9.08	5.0%	31%
M&G REDF	10.43	5.6%	36%
M&G Alpha Opportunities	8.54	5.0%	29%
Cash	0.54		2%
Total	29.05		100%

Investments by Fund

£ million	Holding
T&N Fund	15.43
T&N EL Trust	6.65
Chester Street Fund	6.23
FMFP Fund	0.36
TBA Fund	0.38
Total	29.05

Investment returns

£ million	At 30 Sep 2022	At 30 Sep 2023
Investment income	0.59	0.60
Change in market value of investments	(1.28)	0.95
Total	(0.69)	1.55

Dividend policy

Overview

- The most recent five-year actuarial review was completed during 2021, with dividends set from 1 October 2021 being those used during FY23
- The accuracy of an actuarial review relies on relatively accurate forecasting of claims and reliable investment returns. It was clear during FY23 that in both these aspects actual experience was not in line with the modelling completed in 2021
- Claims experience was ahead of forecasts, particularly in the Chester Street Fund. In addition, claims for mesothelioma were stubbornly high and not reducing in line with actuarial expectations
- Investment returns have been extremely volatile since the global pandemic and this is illustrated by an investment gain of £3.02m in FY21, a loss of £0.68m in FY22, returning to a gain this year of £1.55m
- Reflecting on this the Trustee took the following actions:
 - The dividends were re-assessed using up to date claims information
 - As part of a long-held aspiration of the Trustee, the second dividend was removed, giving more money sooner to Trust Claimants
 - The Hercules dividend was stopped in line with the assurance given by the Trustee to the Chester Street Fund Claimants that the Chester Street Fund surplus would only be distributed if there was certainty over Chester Street Fund Claimants being paid in full
 - An investment review was undertaken with the aim of reducing the volatility in the investment portfolio

Dividends during FY23

Dividend policy	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

Dividends effective from 1 October 2023

Dividend policy	Initial	Second	Total
T&N Fund	24	-	24
T&N EL Trust	65	-	65
Chester Street Fund	27	-	27
FMFP Fund	20	-	20
TBA Fund	10	-	10
T&N Hercules Fund	-	-	-
Chester Street Hercules Fund	-	-	-

Administration of the Trusts

Overview

- The administration of the Trusts is completed by Amianto Operating Company Limited, which is the parent company of the Trustee
- Fees during FY23 totalled £337,000, which despite facing cost inflationary pressures, was a 7% reduction on fees charged in FY22
- The Trustee closely monitors costs and always seeks opportunities to reduce them where possible without impacting the high-quality support given to Trust Claimants and strong governance structure in place
- The Trustee believes there will be limited scope to reduce fees further in the coming financial year
- Overall professional fees were lower in FY23. Actuarial support was reduced, there not being a full review being completed during the financial year. Support was needed for the dividend modelling which took place

Contact

- The Trustee and claims handling team can be contacted as follows:

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Administration fees

£000	Total
T&N Fund	169
T&N EL Trust	84
Chester Street Fund	84
Total	337

Professional fees

£000	T&N Fund	Chester St	T&N EL
Legal and professional fees	54	29	30
Audit fees	8	2	9
Actuarial fees	26	13	13
Total	88	44	52