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UNITED STATES BANKRUPTCY COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN FRANCISCO DIVISION

In re: WESTERN ASBESTOS COMPANY, Debtor.	Case No. 13-31914-HLB Chapter 11 **THIRTEENTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT** Date: June 8, 2017 Time: 10:00 a.m. Place: Courtroom 19 450 Golden Gate Ave, 16th Floor San Francisco, CA 94102

The Trustees of the Western Asbestos Settlement Trust by and through their counsel, Eve H. Karasik of Levene, Neale, Bender, Yoo & Brill, hereby file the Thirteenth Annual Report and Accounting, Audited Financial Statements, and Claim Report.

Dated: April 26, 2017

Respectfully submitted,

/s/ Eve H. Karasik
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THIRTEENTH ANNUAL REPORT AND ACCOUNTING

OF WESTERN ASBESTOS SETTLEMENT TRUST

The Trustees of the Western Asbestos Settlement Trust ("Trust") hereby submit this Thirteenth Annual Report and Accounting ("Annual Report") covering Trust activities occurring from January 1, 2016 to and including December 31, 2016 ("Accounting Period"), and certain activities of the Trust that took place outside the Accounting Period. This Annual Report is submitted to the U.S. Bankruptcy Court for the Northern District of California, San Francisco Division (the "San Francisco Court"), *In Re Western Asbestos Company,* Case No. 13-31914-HLB, in accordance with the *Second Amended Joint Plan of Reorganization* [Docket No. 1002] ("Plan"); the January 27, 2004 *Order Confirming Second Amended Joint Plan of Reorganization and Granting Related Relief* [Docket No. 1205] ("Confirmation Order"); and the Trust Agreement, Bylaws, Trust Distribution Procedures, and Case Valuation Matrix, as amended from time to time, established pursuant to the Plan,[1] and pursuant to the laws of the State of Nevada, where the Trust is organized and where it resides. The Trust Agreement states in Section 7.11 that the Trust is governed by Nevada law. Section 164.015 of the Nevada Revised Statutes allows the Trust to render an accounting and seek approval for its past actions. The factual statements in this Annual Report are supported by the Declaration of Sara Beth Brown, Executive Director, in Support of Motion to Approve and Settle Western Asbestos Settlement Trust's Thirteenth Annual Report and Accounting, the Audited Financial Statements, and the Claim Report, as described in paragraphs 7, 8, and 9, *infra*. Capitalized terms not defined herein are as defined in the Glossary of Terms for the Plan Documents. The Honorable Leslie Tchaikovsky of the United States Bankruptcy Court for the Northern District of California, Oakland Division (the "Oakland Court") approved each Annual Report beginning in 2005 until the Western Asbestos bankruptcy case was transferred to the

[1] The Appendix [Docket Nos. 1841-2 through 1841-7; 1847] includes the Plan; Confirmation Order; Twelfth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement ("Trust Agreement"); Third Amendment to and Complete Restatement of Western Asbestos Settlement Trust Bylaws ("Trust Bylaws"); Second Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix ("Matrix"); Second Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co./Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP"); other controlling documents approved by the Court; and other documents as indicated.

Honorable Roger Efremsky of the Oakland Court. Judge Efremsky approved the 2010, 2011 and 2012 Annual Reports. In 2013, the Western Asbestos bankruptcy case was transferred to the Honorable Thomas E. Carlson who approved the 2013, 2014 and 2015 Annual Reports.

1. Case Assignment: This matter, originally filed as a Chapter 11 bankruptcy case, was assigned for all purposes to United States Bankruptcy Judge Leslie Tchaikovsky of the Oakland Court. On September 1, 2010, the case was transferred to United States Bankruptcy Judge Roger Efremsky. On August 5, 2013, Judge Efremsky recused himself from the case [Docket No. 1782]. Thereafter, the case was assigned to United States Bankruptcy Judge William J. Lafferty, III, of the Oakland Court, who recused himself from the matter on August 16, 2013. The case and any adversary proceedings then were transferred to Chief United States Judge Alan Jaroslovsky for the Bankruptcy Court for the Northern District of California for further disposition [Docket No. 1784]. On August 21, 2013, the case and all adversary proceedings were transferred to United States Bankruptcy Judge Thomas E. Carlson of the San Francisco Court for all purposes [Docket No. 1786]. The original case number of 02-46284-WJL was changed to 13-31914-TC [Docket No. 1788]. On December 1, 2016, the case and all adversary proceedings were transferred to United States Bankruptcy Judge Hannah L. Blumenstiel. The case number of 13-31914-TC was changed to 13-31914-HLB [Docket No. 1853].

2. Effective Date: In compliance with Sections 4.1 and 7.2 of the Plan, and the Glossary of Terms for the Plan Documents, the Effective Date of the Trust is April 22, 2004.

3. Appointment of Trustees: In its February 2, 2004 Order Approving Futures Representative's Motion for Approval of Appointment of Trustees for the Western Asbestos Settlement Trust [Docket No. 1262], the Oakland Court approved the appointment of Sandra R. Hernandez, M.D., John F. Luikart and Stephen M. Snyder as Trustees of the Trust, who have acted in that capacity since that time. Elected in 2004 by the other two Trustees, Stephen M. Snyder has continued to serve as Managing Trustee since that time.

4. Appointment of Trust Advisory Committee ("TAC"): In the Confirmation Order, the Oakland Court approved the appointment of Alan Brayton, Jack Clapper, David M. McClain, Phil Harley, and Michael Sieben as the initial members of the TAC. Mr. Brayton has served as the Chair

of TAC since the Effective Date of the Trust. Messrs. Clapper and McClain have continued to serve as members of the TAC since the Effective Date of the Trust. Jerry Neil Paul's appointment to replace Phil Harley as a member of the TAC was approved by the Oakland Court in June 2009. Michael S. Polk's appointment to replace Michael Sieben as a member of the TAC was approved by this Court in June 2015.

5. Appointment and Continuation of Futures Representative: The Honorable Charles B. Renfrew, retired, was appointed as the Futures Representative in the Western Asbestos cases on November 25, 2002, and his continued appointment as the Futures Representative of the Trust was approved by the Oakland Court in the Confirmation Order. Judge Renfrew has served as the Trust's Futures Representative since the Effective Date of the Trust.

6. Fiscal Year and Tax Obligations: The Trust is required by the Internal Revenue Code to account for and report on its activities for tax purposes on a calendar-year basis. Therefore, the Trust's fiscal year is the calendar year. Except where otherwise stated, all reports attached to this Annual Report cover the Accounting Period. Section 2.2(b) of the Trust Agreement requires the Trustees to file income tax and other returns and statements in a timely manner, and comply with all withholding obligations as legally required, including fulfilling requirements to maintain the Trust's status as a Qualified Settlement Fund. The Trust has complied with its tax obligations on a quarterly basis. The 2015 federal tax return was filed by its extended due date of September 15, 2016 and the 2016 federal tax return will be filed by its extended due date of September 15, 2017. The Trust resides in Nevada, and Nevada has no state income tax. Although the Trust is not subject to tax in California, the Trustees file a tax return in California each year, attaching a copy of the Trust's federal tax return, but showing no California taxable income or state tax liability.

7. Annual Report: Section 2.2(c)(i) of the Trust Agreement provides in pertinent part:

> The Trustees shall cause to be prepared and filed with the Bankruptcy Court, as soon as available, and in any event within 120 days following the end of each fiscal year, an annual report containing financial statements of the Trust (including, without limitation, a statement of the net claimants' equity of the Trust as of the end of such fiscal year and a statement of changes in net claimants' equity for such fiscal year) audited by a firm of independent certified public accountants selected by the Trustees and accompanied by an opinion of such firm as to the fairness of the financial statements' presentation

> of the equity presently available to current and future claimants and as to the conformity of the financial statements with accounting principals generally accepted in the United States, except for the special-purpose accounting methods.

The Trust's financial statements are prepared using special-purpose accounting methods that depart from Generally Accepted Accounting Principles (GAAP) in certain respects in order to better disclose the amount and changes in net claimants' equity.

8. Financial Report: In accordance with the requirements of Section 2.2(c)(i) of the Trust Agreement, the Trust has caused its financial statements to be audited by Grant Thornton LLP, the independent certified public accountants retained by the Trust to perform the annual audit of its financial statements. The Trust's audited financial statements ("Audited Financial Statements") are attached hereto as Exhibit "A." These include a Statement of Net Claimants' Equity, a Statement of Changes in Net Claimants' Equity, a Statement of Cash Flows and Explanatory Notes. The Statement of Net Claimants' Equity, which is the equivalent of a corporate balance sheet, reflects total assets of the Trust at market value and on the other comprehensive basis of accounting adopted by the Trust. These Audited Financial Statements show, among other things, that as of December 31, 2016, total Trust assets were $568,162,724, total liabilities were $40,021,833, and Net Claimants' Equity was $528,140,891.

9. Claim Report: Section 2.2(c)(ii) of the Trust Agreement provides that along with the Audited Financial Statements, the Trust shall file with the court a report containing a summary regarding the number and type of claims disposed of during the period covered by the financial statements. The Western Asbestos Settlement Trust Claim Report As Of December 31, 2016 ("Claim Report"), is attached hereto as Exhibit "B". During the Accounting Period, the Trust received 722 claims, paid 362 claims, and made settlement offers on 420 claims. Since the Trust received its first Trust Claim[2] on August 27, 2004, the Trust has received 13,388 Trust Claims, paid 9,483 Trust Claims, and 2,619 Trust Claims have been withdrawn.[3]

Section 5.4 of the TDP provides that the Trust shall pay Pre-Petition Default, Settlement, and

[2] "Trust Claims" are any claims submitted to the Trust after the Effective Date.

[3] "Withdrawn Claims" include claims which are not qualified and/or claims with deficiencies that have not been cured beyond a certain time period, and/or claims that have remained on hold beyond a certain time period.

Matrix Claims (hereafter "Pre-Petition Liquidated Claims")[4] "[as] soon as practicable after the Effective Date." The vast majority of these claims were paid in 2004, and by December 2005, the Trust had paid 99% of all Pre-Petition Liquidated Claims. During the Accounting Period, no unpaid Pre-Petition Liquidated Claims were paid. The Trust has not yet received proper release documents for fourteen (14) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $158,678.

10. Public Inspection: In compliance with Section 2.2(c) of the Trust Agreement, the Annual Report, including the Audited Financial Statements and Claim Report, has been sent to the Futures Representative, the TAC, the Debtors, and the Office of the United States Trustee with responsibility for the Northern District of California, and has been filed with the United States Bankruptcy Court for the Northern District of California. Accordingly, the Annual Report and attached and related documents have been made available for inspection by the public in accordance with procedures previously established.

11. Trustees' Meetings: Article II, Section 4 of the Trust Bylaws provides that the Trustees shall meet in Nevada, or a state other than California, at least four times per year, as close as practicable on a quarterly basis. The Trustees held five (5) meetings during the Accounting Period (February 18-19, 2016, March 18, 2016, April 14, 2016, September 23, 2016, and November 17-18, 2016). The February, April, September and November meetings were held in Nevada, and the March meeting was held in Arizona.

12. Arbitrations: During the Accounting Period, no arbitrations were held pursuant to Section 5.9 of the Trust Distribution Procedures.

13. Payment Percentage: Section 4.2 of the TDP provides that, commencing on the first day of January, after the Plan has been confirmed and no less frequently than once every three years thereafter, the Trustees shall reconsider the Payment Percentage to assure that it is based on accurate current information and may, after such reconsideration, change the Payment Percentage if necessary with the consent of the TAC and the Futures Representative. In its April 14, 2004, "Order Under Fed.R.Bankr.P. 9019 Approving Compromises with Settling Insurers," the Oakland Court approved

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[4] See the Oakland Court's February 3, 2004 *Memorandum of Decision after Confirmation Hearing* [Docket No. 1265] included in the Appendix.

a Payment Percentage to the Trust's claimants of 31.5%. The Payment Percentage was increased to 34.2% effective January 1, 2006, to 40% on July 24, 2007, and to 44% on February 18, 2010. The Payment Percentage was reviewed on February 7, 2013 and remained at 44%. As initially described in the Trust's Eleventh Annual Report, the Payment Percentage was again reviewed on September 23, 2014 and increased to 48%.

14. Maximum Annual Payment: Section 2.4 of the TDP requires that the Trust calculate an annual payment limit for claims based upon a model of the amount of cash flow anticipated to be necessary over the entire life of the Trust (the "Maximum Annual Payment") to ensure that funds will be available to treat all present and future claimants as similarly as possible. At the November 17, 2016 meeting, the Maximum Annual Payment for 2017 was set at $43,700,000, plus the amount of excess funds carried over from prior years, which Section 2.5 of the TDP requires to be rolled over and remain dedicated to the respective Disease Category in the Jurisdiction (as such terms are defined in the TDP) to which they were originally allocated.

15. Inflation Adjustment: The original Payment Percentage approved by the Oakland Court was based upon projections of future claims payments adjusted annually for inflation. Beginning in 2006, all claims payments made during a calendar year include a cost of living adjustment based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W) announced in January each year. At the November 17, 2016 meeting, the CPI-W to be published in January 2017 was approved for use by the Trust in making the 2017 cost of living adjustment for claims payments. The CPI-W of 2.0% was issued on January 18, 2017 and all inflation adjustments are cumulative. Consequently, all claims payments made during the 2017 calendar year will have a cumulative inflation rate of 26.68% added to the payment amount.

16. Budget and Cash Flow Projections: Section 2.2(d) of the Trust Agreement requires the Trustees to cause to be prepared a budget and cash flow projections prior to the commencement of each fiscal year covering such fiscal year and the succeeding four fiscal years. The Trustees approved the 2017 budget and the required four-year budget and cash flow projections on November 18, 2016. Pursuant to the Trust Agreement, these were provided to the Futures Representative and

TAC. The budget for operating expenses, including investment fees, in 2017 totals $3,896,393.[5]

17. J.T. Thorpe Settlement Trust, Thorpe Insulation Company Asbestos Settlement Trust, and Plant Insulation Company Asbestos Settlement Trust Administration: As initially described in the Trust's Third Annual Report, the Trust and J.T. Thorpe Settlement Trust ("J.T. Thorpe Trust") entered into a Trust Facilities and Services Sharing Agreement. The J.T. Thorpe Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by the Oakland Court in the order approving the Trust's Third Annual Report. As described in the Trust's Twelfth Annual Report, pursuant to the annual reconciliation of fees presented on February 18, 2016, the Trust and the J.T. Thorpe Trust agreed that the advance payments shall be $37,000 per month for 2016. Pursuant to an interim reconciliation of fees presented on September 23, 2016, the Trust and the J.T. Thorpe Trust revised the advance payments to $35,000 per month as of July 1, 2016. Pursuant to the annual reconciliation of fees presented on March 16, 2017, the Trust and the J.T. Thorpe Trust agreed that the advance payments shall be $38,000 per month for 2017. The total amount paid to the Trust by the J.T. Thorpe Trust, after accounts were reconciled for 2016, was $426,116.

As initially described in the Trust's Seventh Annual Report, the Trust and Thorpe Insulation Company Asbestos Settlement Trust ("Thorpe Insulation Trust") entered into a Trust Facilities and Services Sharing Agreement. The Thorpe Insulation Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by the Oakland Court in the order approving the Trust's Seventh Annual Report. As described in the Trust's Twelfth Annual Report, pursuant to the annual reconciliation of fees presented on February 18, 2016, the Trust and the Thorpe Insulation Trust agreed that the advance payments shall be $39,000 per month for 2016. Pursuant to an interim reconciliation of fees presented on September 23, 2016, the Trust and the Thorpe Insulation Trust revised the advance payments to $36,000 per month as of July 1, 2016. Pursuant to the annual reconciliation of fees presented on March 16, 2017, the Trust and the Thorpe Insulation Trust agreed that the advance payments shall be $40,000 per month for 2017. The total amount paid to the Trust

[5] This figure is net of facilities sharing payments which are budgeted for $1,392,000, and excludes claimant payments budgeted for $43,700,000, extraordinary legal fees budgeted for $1,600,000 and income tax payments budgeted for $10,000,000.

by the Thorpe Insulation Trust, after accounts were reconciled for 2016, was $433,707.

As initially described in the Trust's Tenth Annual Report, the Trust and Plant Insulation Company Asbestos Settlement Trust ("Plant Trust") entered into a Trust Facilities and Services Sharing Agreement. The Plant Trust agreed to pay a negotiated monthly amount. Such arrangement was approved by this Court in the order approving the Trust's Tenth Annual Report. As described in the Trust's Twelfth Annual Report, pursuant to the annual reconciliation of fees presented on February 18, 2016, the Trust and the Plant Trust agreed that the advance payments shall be $44,000 per month for 2016. Pursuant to an interim reconciliation of fees presented on September 23, 2016, the Trust and the Plant Trust revised the advance payments to $40,000 per month as of July 1, 2016. Pursuant to the annual reconciliation of fees presented on March 16, 2017, the Trust and the Plant Trust agreed that the advance payments shall be $38,000 per month for 2017. The total amount paid to the Trust by the Plant Trust, after accounts were reconciled for 2016, was $480,179.

18. Operating Fund: The Operating Fund was established at Wells Fargo Bank, N.A. as described in all the Trust's Annual Reports. During the Accounting Period, transfers were made from the Settlement Fund to the Operating Fund to pay anticipated operating expenses of the Trust.

19. Set Aside Funds: The Trust continues to maintain separate funds for the defense and indemnification of Ordway and Milwaukee, Van Packer, and ERC as required by the Trust Documents and/or settlement agreements. These accounts hold the legally required amounts in cash and securities for certain indemnification obligations. During the Accounting Period, no claims were made against and nothing was paid from this fund.

20. Indemnity Fund (Self-Insured Retention): Section 4.6 of the Trust Agreement provides that the Trust shall indemnify the Trustees, the Trust's officers and employees, the Futures Representative, the TAC and each of their respective agents. The Trustees, the Futures Representative, the TAC and their respective agents have a first priority lien upon the Trust's assets to secure the payment of any amounts payable to them pursuant to Section 4.6. In addition to the first priority lien on all the Trust's assets, in 2004, the Trust established an indemnity fund in the amount of $40,000,000, as described in all the Trust's Annual Reports. All interest earned by the fund is returned to the Trust quarterly. During the Accounting Period, no claims were made against

the indemnity fund and nothing was paid from the indemnity fund.

21. Special Budget Fund: A Special Budget Fund was approved in the Oakland Court's May 18, *2005 Order to Approve and Settle Western Asbestos Settlement Trust's Annual Report and Accounting, Audited Financial Statements, and Claim Report; and to Approve Resolution Regarding the FAIR Act* [Docket No. 1595]. There has been no change in this fund during the Accounting Period.

22. Settlement Fund Control Account and Control Agreements: Section 4.7 of the Trust Agreement grants to the Trustees, the Futures Representative and the TAC, a security interest in all of the assets of the Trust to secure the indemnification obligations of the Trust to such parties. The Trustees, the TAC, the Futures Representative and their agents have a security interest in the assets of the Trust. The Trust entered into five separate Control Agreements in 2005 as described in detail in the Trust's Second Annual Report. There has been no change in these Control Agreements during the Accounting Period.

23. Legal Disputes:

a. *Home Insurance Company in Liquidation ("HICIL") and California Insurance Guarantee Association ("CIGA").* As initially described in the Trust's Seventh Annual Report, the Trust and the HICIL Liquidator reached a settlement that provided for an allowed claim in the liquidation proceedings in the amount of $242.5 million. Because of its insolvency, it is not expected that HICIL will be able to pay the entire allowed amount, but instead will pay a portion of the allowed amount over a period of several years. In June 2015 and August 2016, HICIL made interim distributions of 15% and 10%, respectively, of the Trust's allowed claim, which funds have been placed in an escrow account pending the outcome of the CIGA case described below. The Trust discovered that the HICIL Liquidator had reduced the distributions on its allowed claim to pay CIGA's defense costs in the action brought by the Trust. On January 27, 2016, the Trust filed an objection in the liquidation proceedings and a hearing was held on June 28, 2016. On September 23, 2016, the Judge issued an order that CIGA's defense costs shall not be paid from the Trust's allowed claim. On October 21, 2016, the HICIL Liquidator filed an appeal and the New Hampshire Supreme Court agreed to hear the appeal. The HICIL Liquidator's opening Brief was filed on January 18,

2017. The Trust's Opposition Brief was filed on February 17, 2017. The HICIL Liquidator filed its Reply Brief on March 8, 2017. CIGA filed a motion for leave to file an amicus brief on January 18, 2017 and its motion was granted on February 3, 2017. The Court has set oral argument for May 18, 2017.

In February 2013, the Trust filed a lawsuit against the California Insurance Guarantee Association in the Alameda Superior Court, captioned *Stephen M. Snyder, et al. v. California Insurance Guarantee Association*, Civil Case No. RG13666656. This action seeks recovery from CIGA for asbestos bodily injury liabilities that would otherwise be covered by the Home Insurance Company ("Home") under its policies issued from 1976 to 1983, to the extent that Home is unable to pay as a result of its insolvency. CIGA is a state-regulated organization that provides insurance coverage, under certain circumstances, for insurance companies that have become insolvent and unable to pay their claims. The action in Alameda County was designated "complex" and was assigned to the complex court. CIGA filed a demurrer to the Trust's complaint on various grounds, including that the suit was barred by a three-year statute of limitations. On June 28, 2013, the Judge in this matter sustained the demurrer without leave to amend, finding that the action was untimely, inasmuch as CIGA had been previously sued for declaratory relief in the Zurich case and that the statute of limitations had run.

The Trust filed a timely appeal of the ruling sustaining the demurrer without leave to amend on July 19, 2013. On September 17, 2014, the California Court of Appeal issued its ruling (modified on October 7, 2014) reversing the trial court's sustaining of CIGA's demurrer without leave to amend insofar as it was based on the statute of limitations. A subsequent petition to the California Supreme Court by CIGA was denied. On December 11, 2014, the Court of Appeal issued a remittitur. Thereafter, the case was reassigned to Judge Wynne Carville. CIGA answered the Complaint, a trial plan was submitted and approved and the parties were working toward a Phase 1 trial on dispositive issues. In December 2015, this case was transferred to Judge Winifred Smith. Case Management Conferences were held on February 5, 2016 and March 24, 2016. The parties agreed to pursue motions for summary adjudication and summary judgment and a hearing was held on December 16, 2016. Judge Smith denied all parties' motions and set a further Case Management

Conference for February 7, 2017 to discuss the possibility of a CCP 437(c)t stipulation. Defendant CIGA was not willing to pursue a 437(c)t stipulation. Judge Smith therefore asked each party to submit trial plans for a further Case Management Conference on February 28, 2017. Based on the submitted trial plans, Judge Smith set a trial date of August 14, 2017 to try the question of whether Western has any other available insurance. Any remaining issues after the August 14, 2017 trial will be tried on January 22, 2018.

b. *Western Asbestos Settlement Trust v. Michael J. Mandelbrot and Mandelbrot Law Firm*, Adversary Proceeding No. 13-03205 United States Bankruptcy Court for the Northern District of California, San Francisco Division, and subsequent related investigations.

On January 23, 2014, the Trustees entered into an agreement with the Mandelbrot Law Firm and its principal, Michael J. Mandelbrot (herein "Mandelbrot"), requiring that Mandelbrot transfer all its pending claims to other counsel and cease "immediately" further claims-filing activity with the Trust. This agreement was made on the record during a bench trial of the J.T. Thorpe Trust and the Thorpe Insulation Trust (the "Thorpe Trusts") adversary proceedings (*J.T. Thorpe Settlement Trust and Thorpe Insulation Company Asbestos Settlement Trust*, U.S. Bankruptcy Court for the Central District of California Case No. 2:12-ap-02182BB) presided over by the Honorable Sheri Bluebond. In the stipulation, Mandelbrot agreed, among other things, that the Thorpe Trusts' decision to stop accepting further evidence from Mandelbrot in 2013 was reasonable and, further, that it was reasonable for this Trust to take similar actions. Accordingly, this Trust joined the stipulation and since then has acted in conformity with its terms.

After making the stipulation, however, Mandelbrot's trial counsel was substituted out as counsel, and Mandelbrot disavowed the agreement and unsuccessfully challenged its validity in Judge Bluebond's court. After further hearings, Judge Bluebond entered judgment reaffirming the validity and enforceability of the agreement (the "Judgment and Order").

Mandelbrot filed a Motion to Stay Enforcement of the Judgment and Order Following Trial. On May 27, 2014, Judge Bluebond of the U.S. Bankruptcy Court for the Central District of California heard and denied Mandelbrot's motion to stay enforcement of the Judgment and Order. Thereafter, in early June 2014, Mandelbrot appealed the Judgment and Order and filed a motion to stay enforcement of the Judgment and Order pending appeal before the Honorable Virginia A. Phillips of the United States District Court for the Central District of California, who had been assigned to hear Mandelbrot's appeal of the Judgment and Order. Prior to the hearing on the motion, which was scheduled for July 7, 2014, Judge Phillips denied Mandelbrot's motion on the grounds that Mandelbrot had failed to meet the burden of establishing an abuse of discretion by the Bankruptcy Court in denying the requested stay.

Thereafter, on June 18, 2014, and pursuant to a briefing schedule established by the United States District Court, Mandelbrot filed a District Court brief. Briefing on Mandelbrot's appeal was completed on July 15, 2014, and on September 3, 2015, Judge Phillips affirmed the Bankruptcy Court's Judgment and Order. On September 17, 2015, Mandelbrot filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit. Mandelbrot filed an opening brief in late January 2016 and the Trusts filed their responsive brief on February 26, 2016. Mandelbrot filed a reply brief on April 7, 2016. Oral arguments were heard on February 17, 2017 and the Trust is awaiting the Ninth Circuit's decision.

As a result of the stipulation, and consistent with its terms, the Trust is not accepting claims from Mandelbrot and all claims previously submitted by Mandelbrot have been transferred to new counsel. The Trust believes it is obligated to advise claims filers that Mandelbrot is not permitted to file claims with the Trust and on March 6, 2015, posted such a notification on its Web site. However, the Trust has been informed that Mandelbrot's Web site has continued to publish allegations of Trust fiduciary misconduct similar in tone to those adjudicated before the U.S. Bankruptcy Court for the Central District of California and to include the Trust in lists of asbestos trusts with which Mandelbrot files claims despite the Judgment and Order precluding Mandelbrot from filing claims with the Trust.

Mr. Mandelbrot has repeated previously posted allegations against the Trust and personnel involved with the Trust regarding fraud, corruption, bias and preferential treatment. He continues to claim that Trust personnel favor one claimants' law firm over other firms and that certain law firms that submit claims have caused the Trust to remove asbestos exposure sites from the Trust's site list, or to create site lists that do not include allegedly known sites where the debtor used asbestos-containing materials, so that those law firms' clients would receive preferential treatment. The accusations are similar in form and content to previously investigated accusations from Mr. Mandelbrot's blog. The Trust investigated these renewed allegations through outside counsel, who reached the same conclusion as had been reached in years past -- that the allegations are meritless. The Futures Representative and Trust Advisory Committee have been notified of the allegations, the investigation and the conclusion and are satisfied that the Trust's investigation was appropriate and concur in the conclusions.

Most recently, Mr. Mandelbrot provided notice to a lawyer in the office of a member of a Trust Advisory Committee of similar allegations (see 3 and 5 below). Mr. Mandelbrot claimed that there was reliable and verifiable information of trust fraud and misappropriation of funds by Alan Brayton and numerous other trust Fiduciaries received from a former employee (receptionist) of the Trust. The allegations were:

1) Trust Funds were used to pay the catering bill at the wedding of the Chairman of the Trust Advisory Committee Alan Brayton. 2) Trust Funds were used to pay all Trust staff expenses, including travel and hotel to attend the wedding of Alan Brayton. 3) Beneficiaries who are represented by Alan Brayton are given favorable treatment by the Trust, including expedited review of claims and payment. 4) Trust Funds were used to pay for lavish quarterly meetings in Las Vegas, including all employee expenses. 5) Beneficiary claims represented by law firms other than Brayton have 'unfavorable' claim reviews designed to delay claims. 6) The Trust employee was terminated in retaliation for her complaints of Trust misappropriation of funds.

In addition, Mr. Mandelbrot reported that the former Trust employee stated to Mr. Christopher Andreas "I know all about the case against Mandelbrot, he should have won that case, his lawyer just deposed the wrong people at the Trust (who lied…)". The Trust investigated internally and retained outside counsel to investigate these allegations. The investigation found that: (a) no Trust funds were used to pay the catering bill for Alan Brayton's wedding; (b) there was no preferential treatment or unfavorable claim reviews designed to delay claims for other law firms; (c) there was no evidence of an employee lying in connection with Mr. Mandelbrot's litigation described above; and (d) there was no evidence of another employee who Mr. Mandelbrot should have deposed. The investigation found that the Trust did have some Trust meetings in Henderson, Nevada near Las Vegas and some *de minimis* mileage reimbursement and a business dinner around the Brayton wedding. The Trustees evaluated the challenged expenditures and concluded that they were *de minimis* or reasonable in amount, prudent under the then existing circumstances and appropriate for the proper management and administration of the Trust. The Trust reported the allegations regarding expenditures of Trust funds to the Trust's auditors. The auditors did not note any improper expenditure of Trust funds. The Trust reached the same conclusion that had been reached in past years with similar allegations—that the allegations are without merit. The results of the investigations were reported to the Trustees and they in turn reported the allegations, investigation and conclusions to the TAC and the Futures Representative, who are satisfied that the Trust's investigation was appropriate and concur in the conclusions.

These investigations laid to rest claims Mr. Mandelbrot made in defense of the Thorpe Trusts' adversary proceedings.

On September 26, 2016, the Trust and the Thorpe Insulation Settlement Trust were served with subpoenas by Mr. Michael Mandelbrot in the matter of *Mandelbrot v. Healy* (Marin County Superior Court, CIV1500640, Hon. Paul Hakeenson). The subpoenas sought information about claims payments made to clients of Mr. Healy who had previously been clients of Mr. Mandelbrot. In the course of preparing responses to the subpoenas, the Trusts discovered information indicating that Mr. Mandelbrot may receive 90% of attorneys' fees generated by recoveries from the Trust on behalf of clients for whom Mr. Healy is counsel of record. The Trusts then sent a letter to Mr. Healy asking that he confirm that his submittals to the Trusts were in compliance with the Judgment and Order and if (and if so, where) Mr. Mandelbrot has been involved in preparation of evidence submitted under oath or affirmation in support of claims. Mr. Healy was also asked if he was complying with the TDP provisions requiring reliable evidence be submitted in support of claims and if he was complying with the 25% fee cap set forth in Section 8.4 of the TDP regarding attorneys' fees. Mr. Healy responded advising that the evidence he is submitting to the Trusts is in full compliance with the Judgment and Order, that Mr. Mandelbrot has not been involved in the preparation of any evidence of any claim that Mr. Healy submitted to any of the Trusts, that he was complying with the TDP provisions requiring reliable evidence be submitted in support of claims, and that he was complying with the 25% fee cap. Mr. Healy's response fulfilled the Trusts' request for confirmation that he is complying with all of the requirements of the Court Orders and Trust Distribution Procedures.

24. Amendments to the Trust Documents: The Trust Documents were not amended during the Accounting Period.

25. Notifications to Beneficiaries: During the Accounting Period and, additionally, from January 1, 2017 to and including April 19, 2017, the following notifications were placed on the Trust's Web site:

a. Notice of timing of requests for consideration at Trustees' meetings (posted March 4, 2016); and

b. Notice of hearing on the Trust's Twelfth Annual Report and Accounting (posted April 26, 2016).

26. Scenario Planning: In the spring of 2016, the Trustees instructed the Trust's Executive Director to conduct preliminary research and present information to them concerning scenario planning. The Trustees reviewed the research and asked the Executive Director to do further research on scenario planning and find candidates to manage the process, and advise the Trustees. The Trust staff created an RFP and subsequently interviewed three candidates. The Trustees interviewed two of those and the expert was retained. The first working meeting was held in October of 2016. The expert also made presentations at the Trustees' meeting in November. A subsequent meeting was held in January 2017. Further work was presented and discussed at the March 17, 2017 meeting. The purpose of scenario planning is to prepare for the eventual reduction in the Trust's corpus while managing those resources pursuant to Section 524(g) of the Bankruptcy Code and also to be prepared for an unforeseen event that cripples the Trust's ability to comply with its objectives.

27. Filing Fee: Pursuant to Section 6.4 of the TDP, the filing fee was reviewed at the September 23, 2016 meeting and there were no recommended changes to the existing $250.00 fee during the Accounting Period or as of the date hereof.

28. <u>Trustees' Compensation</u>: Section 4.5(c) of the Trust Agreement requires the Trust to report the amounts paid to the Trustees for compensation and expenses. During the Accounting Period, the Trustees each received per annum compensation in the amount of $70,561 paid in quarterly installments. The total paid to all Trustees for hourly compensation and for reimbursement of expenses was $143,214 and $2,589, respectively.

29. <u>Significant Vendors</u>: Although the Trust has many vendors, those who were paid more than $100,000 during the Accounting Period are listed alphabetically below.

a. BlackRock Financial Management: One of eight investment managers for the Trust described in paragraph 30, *infra*;

b. Eagle Capital Management, LLC: One of eight investment managers for the Trust described in paragraph 30, *infra;*

c. Fergus, a Law Office: Counsel to the Honorable Charles Renfrew, Futures Representative;

d. Harding Loevner, LP: One of eight investment managers for the Trust described in paragraph 30, *infra*;

e. Morgan Lewis & Bockius: Counsel to the Trust in the Home Insurance Company in Liquidation and California Insurance Guarantee Association matters, and the Mandelbrot investigation and adversary proceeding described in paragraphs 23(a) and 23(b), *supra*;

f. Park Center Tower, LLC: Landlord for the Trust's offices;

g. Schiff Hardin LLP: Law firm that acts as outside general counsel for the Trust and assists with various legal matters as requested by the Trust;

h. Segall Bryant & Hamill: One of eight investment managers for the Trust described in paragraph 30, *infra*;

i. Silvercrest Asset Management Group LLC: One of eight investment managers for the Trust described in paragraph 30, *infra*;

j. Standish Mellon Asset Management Company: One of eight investment managers for the Trust described in paragraph 30, *infra*;

k. United Healthcare: Trust employee health insurance plan carrier; and

l. Westwood Management Corporation: One of eight investment managers for the Trust described in paragraph 30, *infra*.

30. Trust Investment Management: Article 3 of the Trust Agreement authorizes the Trust to administer the investment of funds in the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs, subject to certain limitations. The Trust closely monitors any market volatility with its investment advisors and continues to be in compliance with its Investment Policy Statement. Callan Associates, Inc. continued to assist the Trust during the Accounting Period as its investment consultant. BlackRock Financial Management, Inc., Eagle Capital Management, LLC, Harding Loevner, LP, Segall Bryant & Hamill, Silvercrest Asset Management Group LLC, Standish Mellon Asset Management Company, LLC, State Street Global Advisors, and Westwood Management Corporation have continued to act as investment managers to the Trust.

Additionally, the Trust's Investment Policy Statement was amended on February 18, 2016 and is included in the Appendix. The Trust's Investment Policy Statement was also amended on November 17, 2016 and a copy of which is attached hereto as Exhibit "C".

***

The Trustees submit that the Annual Report and attached exhibits demonstrate the Trust acted prudently and expeditiously in executing its legal obligations during the Accounting Period and up to and including the date hereof. The Trust conscientiously worked to execute equitable claims procedures and process Trust Claims with due diligence during the Accounting Period and up to and including the date hereof. Moreover, the Trust worked with its accountants and financial advisors to preserve and grow Trust assets in order to fulfill the purpose of the Trust--paying valid asbestos claims. In so doing, the Trust carefully complied with all Plan documents and the mandates of the San Francisco Bankruptcy Court.

EXHIBIT "A"

Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Western Asbestos Settlement Trust

December 31, 2016 and 2015

Contents

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Report of Independent Certified Public Accountants

Trustees
Western Asbestos Settlement Trust

We have audited the accompanying financial statements of Western Asbestos Settlement Trust, ("the Trust"), which comprise the statements of net claimants' equity as of December 31, 2016 and 2015, and the related statements of change in net claimants' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Trust's other basis of accounting. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net claimants' equity of Western Asbestos Settlement Trust as of December 31, 2016 and 2015, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the Trust's other basis of accounting.

Emphasis of matter

We draw attention to Note A.2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the Trust's other basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Operating Expenses for the years ended December 31, 2016 and 2015, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Restriction on use

Our report is intended solely for the information and use of the management of the Trust and Trustees, the beneficiaries of the Trust, the Future Representative, the Future Counsel, the members of the Trust Advisory Committee, and the United States Bankruptcy Court for the Northern District of California, San Francisco Division and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Reno, Nevada
April 20, 2017

Western Asbestos Settlement Trust

STATEMENTS OF NET CLAIMANTS' EQUITY

December 31,

	2016	2015
ASSETS		
Cash, cash equivalents and investments		
Available-for-sale		
Restricted	$ 40,000,000	$ 40,000,000
Unrestricted	517,878,820	548,282,738
Total cash, cash equivalents and investments	557,878,820	588,282,738
Accrued interest and dividend receivables	3,546,396	3,703,617
Prepaid federal income tax	6,737,508	3,183,270
Total assets	$ 568,162,724	$ 595,169,625
LIABILITIES		
Accrued expenses	$ 982,300	$ 532,390
Claim processing deposits	307,000	253,750
Unpaid claims (Note D)		
Outstanding offers	9,495,855	7,810,757
Pre-petition liquidated claims	158,678	155,572
Deferred tax liability	29,078,000	27,966,000
Total liabilities	$ 40,021,833	$ 36,718,469
NET CLAIMANTS' EQUITY	$ 528,140,891	$ 558,451,156

The accompanying notes are an integral part of these statements.

Western Asbestos Settlement Trust

STATEMENTS OF CHANGES IN NET CLAIMANTS' EQUITY

For the years ended December 31,

	2016	2015
Net claimants' equity, beginning of year	$ 558,451,156	$ 590,326,251
Additions to net claimants' equity		
Investment income	12,465,649	14,307,286
Filing fee income	9,750	28,000
Net decrease in outstanding claim offers	-	4,294,986
Trust facility and staff sharing income received	1,340,002	1,515,119
Net decrease in deferred rent	-	94,887
Net realized and unrealized gains on available-for-sale securities	12,722,409	-
Benefit for income taxes, deferred	-	19,614,000
Total additions	26,537,810	39,854,278
Deductions from net claimants' equity		
Operating expenses	6,535,226	5,424,210
Provision for income taxes, current	4,445,762	20,401,729
Claims settled	42,635,073	43,680,897
Net increase in deferred rent	431,810	-
Increase for income taxes, deferred	1,112,000	-
Net realized and unrealized losses on available-for-sale securities	-	2,222,537
Net increase in outstanding claim offers	1,688,204	-
Total deductions	56,848,075	71,729,373
Net claimants' equity, end of year	$ 528,140,891	$ 558,451,156

The accompanying notes are an integral part of these statements.

Western Asbestos Settlement Trust

STATEMENTS OF CASH FLOWS

For the years ended December 31,

	2016	2015
Cash inflows:		
Investment income receipts	$ 12,632,620	$ 14,429,907
Increase in claim processing deposits	53,250	7,750
Trust facility and staff sharing income received	1,340,002	1,515,119
Net realized gains on available-for-sale securities	9,987,240	47,196,610
Total cash inflows	24,013,112	63,149,386
Cash outflows:		
Claim payments made	42,635,073	43,706,937
Decrease of outstanding offers, pre-trust claims	-	6,319
Disbursements for Trust operating expenses	6,517,126	5,500,007
Disbursements for Trust income taxes	8,000,000	24,100,000
Total cash outflows	57,152,199	73,313,263
Net cash outflows	(33,139,087)	(10,163,877)
Non-cash changes:		
Net unrealized gains/(losses) on available-for-sale securities	2,735,169	(49,419,147)
NET DECREASE IN CASH EQUIVALENTS AND INVESTMENTS AVAILABLE-FOR-SALE	(30,403,918)	(59,583,024)
Cash, cash equivalents and investments available-for sale, beginning of year	588,282,738	647,865,762
Cash, cash equivalents and investments available-for-sale, end of year	$ 557,878,820	$ 588,282,738

The accompanying notes are an integral part of these statements.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. Description of Trust

The Western Asbestos Settlement Trust (the Trust), organized pursuant to the laws of the state of Nevada with its office in Reno, Nevada, was established pursuant to the Western Asbestos Company (Western Asbestos), Western Mac Arthur Co. (Western Mac Arthur) and Mac Arthur Co. (Mac Arthur), (collectively the Debtors), Second Amended Joint Plan of Reorganization (the Plan), dated November 18, 2003. The Trust was formed to assume the Debtors' liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions for which the Debtors' are legally responsible; liquidate, resolve, pay and satisfy all valid asbestos-related claims in accordance with the Plan; preserve, hold, manage and maximize the Trust assets for use in paying and satisfying allowed asbestos-related claims; prosecute, settle and manage the disposition of the asbestos in-place insurance coverage; and prosecute, settle and manage asbestos insurance coverage actions. Upon approval of the Plan, the Trust assumed liability for existing and future asbestos health claims against the Debtors. The Trust was created effective April 22, 2004.

The Trust was initially funded with cash, Western Asbestos securities, notes receivable and insurance settlement proceeds. Since its creation, all notes receivable have been collected. The Trust's funding is dedicated solely to the settlement of asbestos health claims and the related costs thereto, as defined in the Plan.

The Trust processes and pays all asbestos-related claims in accordance with the Western Asbestos Settlement Trust Agreement, as amended and restated, the Case Valuation Matrix, as amended and restated, (Matrix) and Trust Distribution Procedures, as amended and restated, (TDP) (collectively, the Trust Documents).

2. Special-Purpose Accounting Methods

The Trust's financial statements are prepared using special-purpose accounting methods that differ from accounting principles generally accepted in the United States. The special-purpose accounting methods were adopted in order to present the amount of equity available for payment of current and future claims. These special-purpose accounting methods are as follows:

- The financial statements are prepared using the accrual basis of accounting, as modified below.
- The funding received from Western Asbestos, Western Mac Arthur, and Mac Arthur and its liability insurers is recorded directly to net claimants' equity. These funds do not represent income of the Trust. Offers for asbestos health claims are reported as deductions from net claimants' equity and do not represent expenses of the Trust.
- Costs of non-income producing assets, which will be exhausted during the life of the Trust and are not available for satisfying claims, are expensed when incurred. These costs include acquisition costs of computer hardware, software, software development, office furniture, leasehold improvements, and other prepaid expenses such as rent and insurance.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

2. Special-Purpose Accounting Methods - Continued

- Future fixed liabilities and contractual obligations entered into by the Trust are recorded directly against net claimants' equity. Accordingly, the future minimum commitments outstanding at period end for non-cancelable obligations have been recorded as deductions from net claimants' equity.

- The liability for unpaid claims reflected in the statement of net claimants' equity represents settled but unpaid claims and outstanding offers. A claims liability is recorded once an offer is made to the claimant at the amount equal to the expected pro rata payment. No liability is recorded for future claim filings and filed claims on which no offer has been made. Net claimants' equity represents funding available to pay present and future claims on which no fixed liability has been recorded.

- Available-for-sale securities are recorded at fair value. All interest and dividend income on available-for-sale securities is included in investment income on the statement of changes in net claimants' equity. Net realized and unrealized gains and losses on available-for-sale securities are recorded as a separate component on the statement of changes in net claimants' equity.

- Realized gains and losses on available-for-sale securities are recorded based on the security's amortized cost. At the time a security is sold, all previously recorded unrealized gains and losses are reversed and recorded net, as a component of other unrealized gains and losses in the accompanying statement of changes in net claimants' equity.

3. Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and cash invested in money market funds.

4. Investments

Fair value measurements are determined through the use of an independent, nationally recognized pricing service. For securities that have quoted prices in active markets, market quotations are provided. For securities that do not trade on a daily basis, the pricing service provides fair value estimates using a variety of inputs including, but not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, bids, offers, reference data, prepayment spreads and measures of volatility. The Trust reviews on an ongoing basis the reasonableness of the methodologies used by the pricing service, as well as determines the aggregate portfolio price performance and reviews it against applicable indices.

5. Deposits

Claims processing deposits represent filing fees collected for each unliquidated claim, which fees are refunded by the Trust if the claim is paid.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

6. Use of Estimates

The preparation of financial statements in conformity with the special-purpose accounting methods described above requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates.

7. Concentration of Risk

Financial instruments that potentially subject the Trust to concentrations of risk consist of cash, cash equivalents and investments. Cash equivalents consist of money market accounts. Cash equivalents and demand deposits are in excess of Federal Deposit Insurance Corporation limits.

The Trust utilizes risk controls to meet investment objectives authorized by its Trustees. Such risk controls include the use of outside investment advisors meeting predetermined criteria, and third-party quantitative and qualitative risk measurement evaluation tools. The Trust believes its risk control practices are appropriate to meet investment objectives.

Investment securities, in general, are exposed to various risks, such as interest rates, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

8. Income Taxes

The Trust's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of December 31, 2016, the Trust did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor did it incur any interest and penalties expense with any unrecognized tax benefits for the year then ended. The Trust is unaware of information concerning any tax positions for which a material change in the unrecognized tax benefit or liability is reasonably possible within the next twelve months. The Trust files income tax returns in the United States. Although the Trust owes no tax to the State of California, it files an annual tax return in California reporting no taxable income or tax owed. The Trust is no longer subject to United States federal tax examinations for years before 2013 and state examinations for years before 2012.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

The Trust has classified its investments as available-for-sale, and recorded the securities at estimated fair value, as follows:

	December 31, 2016	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 1,332,017	$ 1,332,017
U.S. Government obligations	16,795,418	16,681,611
Municipal bonds	1,434,939	1,363,963
Asset-backed debt	1,668,975	1,669,083
Corporate debt	19,158,166	18,953,326
Total restricted	40,389,515	40,000,000
Unrestricted		
Cash demand deposits	632,466	632,466
Cash equivalents	39,948,009	39,948,009
Equity securities	112,191,941	184,713,661
U.S. Government obligations	39,183,520	39,109,341
Municipal bonds	227,628,408	229,227,980
Asset-backed debt	1,586,851	1,591,501
Corporate debt	22,787,928	22,655,862
Total unrestricted	443,959,123	517,878,820
Total funds	$ 484,348,638	$ 557,878,820

	December 31, 2015	
	Cost	Fair Value
Restricted		
Cash equivalents	$ 185,573	$ 185,573
U.S. Government obligations	18,118,504	18,123,298
Municipal bonds	1,277,906	1,200,891
Asset-backed debt	2,585,181	2,568,183
Corporate debt	18,283,319	17,922,055
Total restricted	40,450,483	40,000,000
Unrestricted		
Cash demand deposits	$ 376,188	$ 376,188
Cash equivalents	73,723,224	73,723,224
Equity securities	121,531,067	184,538,230
U.S. Government obligations	20,281,864	20,278,121
Municipal bonds	236,566,132	245,191,124
Asset-backed debt	2,371,775	2,356,619
Corporate debt	22,125,516	21,819,232
Total unrestricted	476,975,766	548,282,738
Total funds	$ 517,426,249	$ 588,282,738

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Trust accounts for investments according to a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Trust's assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where significant inputs are observable or can be corroborated by observable market data.

Level 3 - Valuations based on models where significant inputs are not observable, and for which the determination of fair value requires significant management judgment or estimation.

Assets and liabilities measured at fair value on a recurring basis, including financial instruments for which the Trust accounts, were as follows at:

	December 31, 2016		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 632,466	$ -	$ -
Cash equivalents	41,280,026	-	-
Equity securities	184,713,661	-	-
U.S. Government obligations	26,872,922	28,918,030	-
Municipal bonds	-	230,591,943	-
Asset-backed debt	-	3,161,753	98,831
Corporate debt and other	41,609,188	-	-
	$ 295,108,263	$ 262,671,726	$ 98,831

	December 31, 2015		
	Level 1	Level 2	Level 3
Assets			
Cash demand deposits	$ 376,188	$ -	$ -
Cash equivalents	73,908,797	-	-
Equity securities	184,538,230	-	-
U.S. Government obligations	8,421,271	29,980,148	-
Municipal bonds	-	246,392,015	-
Asset-backed debt	-	4,821,064	103,738
Corporate debt and other	39,741,287	-	-
	$ 306,985,773	$ 281,193,227	$ 103,738

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS - Continued

The Trust experiences transfers in and out of levels within the fair value hierarchy primarily due to the market activity of the underlying security. The Trust's policy is to recognize transfers in and out at the actual date the event or change in circumstance caused the transfer. No securities were transferred between Level 1 to Level 2.

Activity in Level 3 investments for the years ended December 31, 2016 and 2015 was:

	Mortgage Backed Securities	
	2016	2015
Balance at January 1	$ 103,738	$ 151,014
Sales	(4,673)	(44,738)
Unrealized loss	(234)	(2,538)
Balance at December 31	$ 98,831	$ 103,738

The maturities of the Trust's available-for-sale securities at market value (excluding cash equivalents) are as follows as of December 31, 2016:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Years Through 10 Years	After 10 Years
U.S. Government obligations	$ 21,761,824	$ 4,697,319	$ 6,227,187	$ 23,104,622
Municipal bonds	12,140,643	111,201,505	84,032,942	23,216,853
Asset-backed debt	-	1,849,734	559,995	850,855
Corporate debt	2,929,305	22,744,370	13,252,065	2,683,448
	$ 36,831,772	$ 140,492,928	$ 104,072,189	$ 49,855,778

NOTE C - FIXED ASSETS

The cost of non-income producing assets that will be exhausted during the life of the Trust and are not available for satisfying claims are expensed as incurred. Since inception, the cost of fixed assets expensed, net of disposals, includes:

Acquisition of furniture and equipment	$	91,246
Acquisition of computer hardware and software		183,319
	$	274,565

These items have not been recorded as assets, but rather as operating expenses and direct deductions from net claimants' equity in the accompanying financial statements. The cost of fixed assets that were expensed during the years ended December 31, 2016 and 2015 were $27,328 and $136,695, respectively.

Total depreciation expense related to asset acquisition using accounting principles generally accepted in the United States would have been approximately $22,042 and $29,932 for the years ended December 31, 2016 and 2015, respectively.

NOTE D - CLAIM LIABILITIES

The Trust distinguishes between claims that were resolved prior to the establishment of the Trust and claims received and processed using the Trust Documents after the creation of the Trust (Trust Claims). The claims filed prior to the creation of the Trust were grouped into three categories: default, matrix and settlement claims (Pre-petition Liquidated Claims).

The cases underlying the Pre-petition Liquidated Claims were stayed by the court until the Plan was confirmed. The Trust approved and immediately made offers to pay, subject to receiving a claimant release, the approved Payment Percentage of the liquidated value of each Pre-Petition Liquidated Claim. Certain Pre-petition Liquidated Claims were further reduced by payments made by the Debtors' insurers prior to the formation of the Trust.

For all claims, a liability for unpaid claims is recorded at the time the offer is extended and the release authorization is mailed. Funds are mailed after the approved release is signed, received, and approved by the Trust. Unpaid claims liabilities remain on the Trust's books until the offer is accepted, rejected, withdrawn or expires after six months. Offers may be extended an additional six months upon written request and good cause. The expiration policy is currently suspended until completion of the claim system development. As of the years ended December 31, 2016 and 2015, there were no expired offers.

All claimants are entitled to the full liquidated value of their claim. Under the TDP, claimants receive an initial pro rata payment equal to the approved Payment Percentage of the claim's liquidated value. The remaining obligation for the unpaid portion of the liquidated amount is not recorded and is not a liability of the Trust, unless the Payment Percentage is increased. In that instance, the Trust would be obligated to retroactively pay the increased percentage to all previously paid claimants (see Note G).

NOTE D - CLAIM LIABILITIES - Continued

In the interest of treating all claimants equitably in accordance with the Plan, the Trustees have recommended that all payments made during each calendar year ended December 31, 2006 through December 31, 2016 include a Cost of Living Adjustment for inflation based upon the Federal Bureau of Labor Statistics' *Consumer Price Index for Urban Wage Earners and Clerical Workers* (CPI-W). Claims liabilities at year end are adjusted for any approved Inflation Adjustments. Inflation Adjustments are cumulative. Cumulative Inflation Adjustments of 26.68% and 24.20% are included in outstanding claims liabilities as of December 31, 2016 and 2015, respectively.

The Trust processed and approved approximately $44,353,283 and $39,385,158 of Trust Claims during the years ended December 31, 2016 and 2015, respectively.

NOTE E - COMMITMENTS AND CONTINGENCIES

The Trust leases its offices in Reno, Nevada, under a non-cancelable operating lease. The lease contains escalation provisions, options to extend and expires August 31, 2022.

The Trust paid $107,465 and $101,449 in rental expense during the years ended December 31, 2016 and 2015, respectively. Future minimum rental commitments, excluding parking and utility expenses, under this operating lease are:

Years ending December 31,		
2017	$	100,756
2018		103,779
2019		106,892
2020		110,099
2021		74,853

NOTE F - FACILITY AND STAFF SHARING AGREEMENT

The Trust has entered into facilities and staff sharing agreements with the J. T. Thorpe Settlement Trust, (J. T. Thorpe Trust), the Thorpe Insulation Settlement Trust (Thorpe Insulation Trust) and Plant Asbestos Settlement Trust (Plant Asbestos Trust). The four trusts are related through common Trustees. Under the agreements, and in exchange for advance monthly payments, the Trust provides use of its facilities and services relating to administration and claims processing. The agreements automatically renew for additional one-year periods unless either party provides written notice. The amounts of advanced monthly payments are agreed upon between the trusts from time to time. As of December 31, 2016, the equitable amount agreed upon is based on the required written calendar year reconciliation of annual services that is performed by the Trust.

NOTE F - FACILITY AND STAFF SHARING AGREEMENT - Continued

Additional payment (refund) due based on the reconciliation performed as of December 31:

	2016	2015
J.T. Thorpe Trust	$ (8,970)	$ 3,078
Thorpe Insulation Trust	(16,374)	81
Plant Asbestos Trust	(22,125)	(1,692)

Any excess of cost over payments or payments over cost is required to be repaid by the benefited party with interest.

NOTE G - NET CLAIMANTS' EQUITY

The Trust was created pursuant to the Plan approved by the United States Bankruptcy Court for the Northern District of California, San Francisco Division. The TDP was adopted pursuant to the Plan and concurrently with the Trust Agreement. It is designed to provide fair and equitable treatment for all Trust claims that may presently exist or may arise in the future. The TDP prescribes certain procedures for distributing the Trust's limited assets, including pro rata payments and initial determination of claim value based on scheduled diseases values, jurisdictions, and individual factual information concerning each claimant as set forth in the Trust Documents.

Under the TDP, the Trust forecasts its anticipated annual sources and uses of cash until the last projected future claim has been paid. A pro rata Payment Percentage is calculated such that the Trust will have no remaining assets or liabilities after the last future claimant receives his/her pro rata share.

Based on research and testimony presented during the bankruptcy, the court approved an initial payment to claimants of 31.5% of the liquidated value of then current and estimated future claims (Payment Percentage). The TDP gives the Trustees, with the consent of the Trust Advisory Committee ("TAC") and the Futures Representative, the power to periodically update its estimate of the Payment Percentage based on updated assumptions regarding its future assets and liabilities and, if appropriate, propose additional changes in the Payment Percentage. The Payment Percentage was increased by the Trustees to 34.2% in February 2006, 40.0% in July 2007, 44% in February 2010, and 48% in September 2014. These changes were made with the consent of the TAC and Futures Representative. The increases were retroactive for claims approved since inception.

NOTE H - EMPLOYEE BENEFIT PLANS

The Trust has established a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code for all eligible employees after completion of certain age and service requirements. Employees may voluntarily elect to defer their compensation or fund a Roth IRA and invest in various options for their retirement. The plan allows employees to defer a percentage of their salaries within limits set by the Internal Revenue Code, with the Trust matching contributions by employees of up to 4% of their salaries. The Trust may also make discretionary contributions to employee accounts. The total Trust contribution and expenses under the plan were approximately $67,155 and $68,242 for the years ended December 31, 2016 and 2015, respectively.

NOTE I - RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

To avoid the high costs of director and officer liability insurance, and pursuant to the Trust Agreement, the Trust has elected to be self-insured and has established a segregated security fund of $40 million. These funds are devoted exclusively to securing the obligations of the Trust to indemnify the former and current Trustees and officers, employees, agents and representatives of the Trust. The funds are held in a separate Trust bank account, and the investment earnings on these funds accrue to the benefit of the Trust.

As of December 31, 2016 and 2015, cash, cash equivalents and investments of $40,000,000 were restricted for this purpose.

NOTE J - INCOME TAXES

For federal income tax purposes, the Trust is taxed as a Qualified Settlement Fund (QSF). Income and expenses associated with the Trust are taxed in accordance with Section 468B of the Internal Revenue Code. The statutory income tax rate for the Trust is 39.6% for the years ended December 31, 2016 and 2015.

The Trust records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book and tax basis of assets and liabilities.

The provision (benefit) for income taxes consists of the following for the years ended December 31:

	2016	2015
Income tax – current	$ 4,445,762	$ 20,401,729
Deferred income tax expense (benefit)	1,112,000	(19,614,000)
	$ 5,557,762	$ 787,729

The components of the deferred income tax asset (liability), as presented in the statements of net claimants' equity consisted of the following at December 31:

	2016	2015
Deferred tax asset (liability)		
Unrealized appreciation	$ (29,115,000)	$ (28,032,000)
Other, net	37,000	66,000
	$ (29,078,000)	$ (27,966,000)

NOTE K - SUBSEQUENT EVENTS

The Trust evaluated subsequent events through April 20, 2017, the date the financial statements were available to be issued. There were no material subsequent events that required recognition or disclosure.

SUPPLEMENTAL INFORMATION

Western Asbestos Settlement Trust

SCHEDULE OF OPERATING EXPENSES

For the years ended December 31,

	2016	2015
Accounting	$ 55,050	$ 46,350
Claims processing/claims system development	612,846	660,817
Computer equipment	-	6,335
Futures representative	452,452	183,866
Information technology support	22,270	22,096
Insurance	19,130	12,538
Investment expense	1,845,122	1,926,933
Legal fees	1,553,618	754,915
Office expense	66,898	29,376
Office furniture and equipment	3,392	12,558
Payroll and related taxes	1,218,137	1,142,410
Pension plan contribution and fees	67,155	68,242
Rent and utilities	140,516	136,062
Travel and meals	15,002	6,910
Trust advisory committee	36,204	47,519
Trustee fees	376,149	353,468
Trustees professional	51,285	13,815
	6,535,226	5,424,210
Less: Reimbursement pursuant to the shared services agreements to process and pay claims and provide operational and administrative support	(1,340,002)	(1,515,119)
	$ 5,195,224	$ 3,909,091

EXHIBIT "B"

EXHIBIT "B"

Western Asbestos Settlement Trust
Claim Report
As of December 31, 2016

This report is submitted pursuant to Section 2.2 (c)(ii) of the Twelfth Amendment to and Complete Restatement of Western Asbestos Settlement Trust Agreement, which requires the Trust to file with the Bankruptcy Court a summary of the number and type of claims disposed of during the time period covered by the financial statements ("Accounting Period"). This report summarizes the Trust's processing of the claims liquidated by default, settlement agreement, or the settlement matrix prior to April 22, 2004, the Effective Date of the Trust ("Pre-Petition Liquidated Claims") and the claims received since the Effective Date of the Trust ("Trust Claims").

Pre-Petition Liquidated Claims

In 2004, the Trust implemented a procedure to pay the Pre-Petition Liquidated Claims in accordance with the Plan, the Trust Distribution Procedures and the Confirmation Order. The Confirmation Order, as amended on April 14, 2004, provided that the initial payment to Pre-Petition Liquidated claimants was to be 31.5% of the total liquidated value of each claim. The total liquidated value of California default claims includes statutory interest. As the Payment Percentage has been raised, the Pre-Petition Liquidated Claims that were paid earlier have received the additional amounts.

No unpaid Pre-Petition Liquidated Claims were paid during the Accounting Period. The Trust has not yet received proper releases for fourteen (14) remaining unpaid Pre-Petition Liquidated Claims in the total amount of $158,678. That amount is based upon the current Payment Percentage of 48% of the total liquidated value, and includes the cumulative inflation adjustment of 26.68% utilized for claims payments made in 2017 and is based upon the Federal Bureau of Labor Statistics' Consumer Price Index for Urban Wage Earners and Clerical Workers ("CPI-W").

As of April 1, 2017, the total amount paid for Pre-Petition Liquidated Claims is $1,140,973,307.

Trust Claims

Claims received and disposed of from January 1, 2016, through December 31, 2016, in accordance with the Second Amendment to and Complete Restatement of Western Asbestos Settlement Trust Case Valuation Matrix ("Matrix") and the Second Amendment to and Complete Restatement of the Western Asbestos Company/Western Mac Arthur Co. /Mac Arthur Co. Asbestos Personal Injury Settlement Trust Distribution Procedures ("TDP") are as set forth below.

The value of each compensable disease is determined by the Matrix and TDP. Claim compensation is adjusted for individual claimants based upon jurisdiction and tort related individual characteristics including, but not limited to: age, marital status, dependents, medical specials, economic loss, and whether living at the time of commencement of litigation or filing the claim with the Trust. Each valid claim is awarded a total liquidated value. As of December 31, 2016, Trust Claims were paid at the approved Payment Percentage of 48%. Payments made on Trust Claims in 2016 included an additional 24.2% to account for inflation based upon the CPI-W.

During the Accounting Period, 722 claims were received. In addition, offers were issued to 420 claimants. Further, 362 claims were paid.

Below is a summary of the number and type of claims disposed of (paid) in 2016.

Compensable Disease	Number of California Claims	Number of Minnesota Claims	Number of North Dakota Claims	Totals
Grade II Non-Malignant	51	6	0	57
Grade I Non-Malignant	45	3	0	48
Grade I Non-Malignant Enhanced Asbestosis	25	0	0	25
Grade I Non-Malignant Serious Asbestosis	15	0	0	15
Other Cancer	18	2	0	20
Lung Cancer	58	10	0	68
Mesothelioma	105	23	1	129
Totals	**317**	**44**	**1**	**362**

As of April 1, 2017, the total amount paid for Trust Claims is $648,518,061.

EXHIBIT "C"

EXHIBIT "C"

Investment Policy Statement

Western Asbestos Settlement Trust

November, 2016

Prepared by Callan Associates, Inc.

Table of Contents

Executive Summary

Type of Plan	Taxable Trust
Investment Planning Time Horizon	5 years
Expected Annualized After-Tax Return and Risk[1]	Return = 3.8 Risk = 6.6

Primary Goal

The Western Asbestos Settlement Trust (the Trust) is organized pursuant to the laws of the state of Nevada with its office in Reno, Nevada. It was established pursuant to the Western Asbestos Company, Western Mac Arthur Co. and Mac Arthur Co. (collectively the Debtors') Second Amended Joint Plan of Reorganization (the Plan) dated November 22, 2002. The Trust was formed to assume the Debtors' liabilities resulting from pending and potential litigation involving individuals exposed to asbestos who have manifested asbestos-related diseases or conditions; liquidate, resolve, pay and satisfy all asbestos-related claims in accordance with the Plan. As well the Trust must preserve, hold, manage and maximize the Trust assets for use in paying and satisfying current and future allowed asbestos-related claims.

As set forth in the Trust Distribution Procedures, Section 2.4, the Trust shall estimate or model the amount of cash flow anticipated as necessary over its entire life to ensure that funds will be available to treat all present and futures claimants as similarly as possible. In order to pay the anticipated claims, the Trust relied upon an expert report filed with the U.S. Bankruptcy Court which calculated a reasonable real after tax discount rate to use in calculating the present value of the future claims to be assumed by the Trust. These estimates provided the Trust with an assumption that the assets should earn an after-tax real rate of return of approximately 1% per annum. While additional assets may be made available, the Trust will operate on the assumption that there will be no additional contributions. As such, protection of principal will be a primary goal.

[1] Represents expected after-tax (30%) geometric return and risk using Callan' 2016 Capital Market assumptions applied to the Portfolio Evaluation Benchmark described below.

Long-range Asset Allocation Target

The Trust will have the following long-term asset allocation target.

Fixed Income	60%
Equity Oriented Securities[2]	40%

The long-range asset allocation target will be applicable to the long-term investable assets net of any set-asides and liquidity reserves. This asset allocation was established through quantitative and qualitative assessments of the returns and risks available in the capital markets over long-term periods as well as the diversification available from using multiple asset classes. While an investment program consisting entirely of fixed income would demonstrate the least volatility of any asset allocation considered, a quantitative study performed by the Trust's investment consultant demonstrated that the probability of exhausting Trust assets in advance of paying claims as planned was minimized by introducing an equity allocation into the portfolio. Allocations to each of the asset classes will be further diversified and tailored to reflect the tax-status of the Trust as described in the "Investment Practices" section of this policy.

Maintenance of the Strategic Asset Allocation

Target Mix With Ranges

	Low	**Target**	**High**
Fixed Income	**50%**	**60%**	**80%**
Equity Oriented Securities	**20%**	**40%**	**50%**

The Trust will from time to time adjust the asset allocation within the designated range based upon the changing cash flow needs of the Trust, claims submitted and projections of future claims. The Trust will deviate from targets over short and intermediate periods in response to liquidity needs, market performance, and the cost of asset allocation adjustments including transactions costs and the taxation of transactions. Deviations from the target allocation beyond the low or high allocations defined in the table above represent significant deviations from the return and risk characteristics of the target allocations and will prompt to the Trustees to consider moving the allocations back to toward the target allocation.

[2] *Equity Oriented Securities will predominantly consist of common stock but may include other investment categories including REITs and bonds as described in the Investment Practices and Portfolio Evaluation Benchmark - Target Index sections of this document.*

The Strategic Asset Allocation and Target Index are to be reviewed at least annually for presentation to the Trustees and Executive Director, for reasonableness relative to significant economic and market changes, or to changes in the Trust's long-term goals and objectives. A formal asset allocation study should be conducted at least every three years to verify or amend the targets.

Portfolio Evaluation Benchmark – Target Index

A special target index was constructed to monitor the performance of the total fund. This target index serves as a minimum performance objective for the Trust. It is expected that,,,,,,, in most market environments, the Trust's actual asset allocation will approximately resemble the allocation expressed in the target index. The Trust will deviate from the target index over short and intermediate periods in response to liquidity needs, market performance, market outlook, and the cost of asset allocation adjustments, including transactions costs and the taxation of transactions.

Target Index:

- ♦ **40% consisting of the following sub-components**
  - **25% Standard & Poor's 500 Stock Index**
  - **25% Russell 3000 Index**
  - **16.66% MSCI ACWI ex-US Index**
  - **16.67% Russell 3000 Value Index**
  - **16.67% Custom Blended Benchmark consisting of 25% 3 - Month Treasury Bills, 25% 10-Year Treasury Bonds, 25% S&P 500 Index, 25% NAREIT Index.**
- ♦ **60% consisting of the following sub-components**
  - **70% Bloomberg Barclays Capital 1-10 Year Municipal Bond Index**
  - **20% Custom Blended Benchmark consisting of 30% Bloomberg Barclays Capital Intermediate Government Index, 40% Bloomberg Barclays Capital Intermediate Credit Index, 30% Bloomberg Barclays Mortgage Index**
  - **10% 3-Month Treasury Bills**

With the possible exception of the short duration enhanced cash portfolio, individual investment managers will be retained to manage the sub-components of the Target Index. Individual investment managers will be measured against each sub-component index and not against this total fund objective. However, it is expected that the sum of their efforts will exceed the trust objective over time.

Manager Evaluation

Investment managers will be measured relative to an appropriate market index. A market index is assigned to each Manager and is intended as a guide for the investment manager to understand the risk/reward posture of their portfolio. Managers have full discretion to manage the risk posture of their portfolios relative to their designated market index and may, with conviction and appropriate expertise, execute security strategies not reflected by their market index as long as they conform to the investment guidelines.

Trustees or Executive Director may, at either's discretion, also evaluate the investment managers relative to peer groups of managers with similar investment styles. These evaluations will take into account the exceptional nature of the Trust investment manager mandates including but not limited to custom benchmarks and the unique tax situation of the Trust.

Review of Investments

There shall be a continual review of the investments under management by Callan Associates (Consultant). The Trustees, consultant and/or the Executive Director shall confer with the investment managers regarding investment performance, market environment and other issues as required. Each investment manager shall report pertinent data to Trust and custodian at least monthly. All legal, organizational and personnel related developments will be reported to the client and consultant as soon as practicable.

Consultant will meet with the Trustees, Executive Director, and other Trust representatives as requested by the Trustees, to review performance of the Trust and individual managers quarterly. These reviews will be conducted in the context of these guidelines.

Investment Practices

Investments will be prudent and consistent with the best investment practices, and in compliance with Trust documents including but not limited to Article 3 of the Western Asbestos Settlement Trust Agreement as amended.

- No more than 45% at cost or 50% at market value of total Trust assets may be invested in equities with the balance invested in Fixed Income securities or cash equivalents.
- 10% of the Trust's assets may be invested in debt securities that are non-rated or below investment grade as long as those securities are in a diversified and managed portfolio of bonds and/or stock.
- The percentage of the Trust assets (debt and equity) invested in any one company is limited to 5% at market with the exception of debt securities or other instruments issued or fully guaranteed as to principal and interest by the United States of America or any agency or instrumentality thereof. The Trust does not include cash equivalents in the calculation of maximums allowed for certain types of securities.
- Cash flow, other than an automatic withdrawal of the income on a monthly basis, may be required to maintain the long-range asset allocation target and to satisfy claim liabilities.

A. Equity Oriented Securities

Excluding any securities issued by the Debtors[3], the Trust shall not acquire or hold, directly or indirectly, any common or preferred stock, convertible securities, REITS, or Royalty Trusts ("Stock") unless such stock is included in a diversified and managed portfolio or portfolios which include various industry sectors.

1. **S&P 500 Index Strategy**

   - The objective of the S&P 500 index strategy is to tax-efficiently track the **S&P 500 Index**, with a tracking error (defined as annualized standard deviation of the portfolio's monthly returns relative to the S&P 500) of 100 basis points or less. The percent ownership of any company is limited to 5% of market value, unless the company's representation in the S&P 500 Index is greater than 5%. If the company's representation in the S&P 500 Index is greater than 5%, then the portfolio can hold up to that percentage, subject to a 10% limit.

2. **Opportunistic Equity Strategy**

   - The objective of the opportunistic equity strategy is to provide for long-term growth and additional after-tax returns to the Trust and exceed the **Russell 3000 Index** over a market cycle.
   - The percent ownership of any company within this portfolio is limited to 10% of portfolio market value.
   - Capitalizations, sector weightings, and portfolio characteristics will be of secondary importance.
   - Dividends and capital gains are of similar importance. The primary objective for pursuing dividends will be to stabilize returns.

     Portfolio turnover should be kept at a minimum to defer the recognition of capital gains and the payment of taxes.

3. **International Equity Strategy**

   - The objective of the international equity strategy is to provide an additional source of long-term growth and after-tax returns to the Trust and exceed the **MSCI ACWI ex-US Index** over a full market cycle.
   - The actively managed international equity portfolio must be diversified by country, region, industry and security. The percent ownership of any company within this portfolio is limited to 5% of the portfolio's market value. In addition, exposure to Emerging Markets is limited to 35% of market value.

4. **Yield Oriented Equity Strategy**

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[3] Debtors refer to the Western Asbestos Company, Mac Arthur Co. and its wholly owned subsidiary Western MacArthur Co.

- The objective of the Yield Oriented Equity strategy is to provide an additional source of long-term growth and after-tax returns to the Trust and exceed the **Russell 3000 Value** index over a full market cycle.
- The actively managed portfolio will invest predominantly in common stocks of companies listed in the United States. These common stocks in aggregate should exhibit a higher yield than that offered by the broad market, as measured by the S&P 500.

5. **Equity Income Strategy**

   - The objective of the equity income strategy is to maximize income and/or growth in income by investing in securities which may include common stocks, convertible bonds, preferred stocks, REITS, royalty trusts, and bonds, including high yield debt securities. Limits include the equity limits of the Trust and the non investment grade bond limits of the Trust as well as the individual limits on ownership of any one company's equity or debt. The percent ownership of any company within this portfolio is limited to 10% of the portfolio's market value. No more than 50% of the portfolio can be invested in fixed income securities rated below investment grade. This actively managed portfolio is expected to exceed the returns of a **custom blended benchmark consisting of 25% 3-Month Treasury Bills, 25% 10-Year Treasury Bonds, 25% NAREIT Index, and 25% S&P 500**.

B. U.S. Fixed-Income

<u>Allowable securities are as follows:</u>

- U.S. Treasury and agency securities
- Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including but not limited to pass-throughs, CMOs, REMICs, CMBS, project loans, construction loans and adjustable rate mortgages
- Obligations of domestic and foreign corporations
- Asset backed securities
- Municipal bonds, both taxable and tax-exempt
- Municipal pre-refunded bonds backed by U.S. Treasury or Agency Securities
- Municipal inflation protected securities (MIPS)
- Preferred stock, including non-convertible preferred stock such as bank trust preferreds
- Money market instruments rated A-1 or P-1 or better at time of purchase
- Repurchase obligations as long as, in the opinion of the Trustees and asset manager, they are adequately collateralized
- Obligations of foreign governments and supra-national organizations
- Obligations of domestic and foreign commercial banks
- 144A securities including issues in the corporate, mortgage and asset-backed sectors
- CDs may be held as long as all of the publicly held long-term debt securities, if any, of the issuing entity are rated investment grade (see credit criteria below) or above.

- Non investment grade bonds subject to an overall limit of 10% of Trust's assets and within a managed and diversified portfolio.

Credit Criteria

- To be deemed investment grade, securities must be rated investment grade or better at the time of purchase by a nationally recognized rating agency (Moody's, Standard & Poors and Fitch). Split rated securities shall be assumed to have the higher credit grade.
- If a portfolio holding is downgraded to below investment grade and the holding is in a portfolio which is not permitted to purchase below investment grade securities, manager shall promptly notify the Trust and provide an evaluation and recommended plan of action.

1. **Municipal Bond Crossover Portfolio(s)**

   - The portfolio's investment objective is to provide an after-tax total rate of return that exceeds the after-tax total return of the Bloomberg **Barclays Capital 1-10 Year Municipal Bond Index.**
   - The portfolio will have a targeted duration of approximately +/-40% around the benchmark.
   - With the exception of Treasury, Agency debentures, pass-throughs or REMICs, no more than 5% of the portfolio may be invested in securities of a single issuer.
   - 15% maximum in BBB rated securities.
   - Securities must be rated investment grade at time of purchase. Non-rated, pre-refunded bonds fully backed by U.S. Treasury and Agency Securities are exempt from this restriction.

2. **Taxable Fixed Income Portfolio**

   - The portfolio's objective is to invest in the short to intermediate portion of the yield curve and to outperform the target benchmark.
   - The portfolio's **custom blended benchmark consists of 30% Bloomberg Barclays Capital Intermediate Government Index, 40% Bloomberg Barclays Capital Intermediate Credit Index, and 30% Bloomberg Barclays Capital Mortgage Index**.
   - The portfolio will have a targeted duration of approximately +/25% around the benchmark.
   - No more than 5% of the portfolio may be invested in securities of a single issuer, with the exception of the U.S. Treasury, agency and agency mortgage issues.

- The weighted average credit quality of the portfolio shall be maintained at a minimum of Aa3 by Moody's and/or AA- by Standard and Poor's or Fitch.
- Securities must be rated investment grade at time of purchase.

3. Short Duration Enhanced Cash Portfolio

- The portfolio's objective is to provide a high level of liquidity and preserve principal. Adding incremental yield is a secondary objective.
- Benchmark is **3-Month Treasury Bills.**
- No more than 5% of the portfolio may be invested in securities of a single issuer, with the exception of the U.S. Treasury and U.S. Agency debt.
- The portfolio's duration will not exceed 300% of the index's duration.
- Portfolio's weighted average credit quality must be at least Aa2 by Moody's and/or AA by Standard and Poor's or Fitch.
- All securities must be rated investment grade and have a final maturity less than or equal to 5 years from time of purchase. No more than 15% of the portfolio can be rated less than A-, or its equivalent.
- Portfolio level spread duration can not exceed 2 years.

C. Derivatives Policy

Derivatives shall be held for the purposes of hedging, cost reduction and liquidity enhancement only. Derivatives shall not be used for speculative purposes.

- No leverage shall be introduced through the use of derivatives
- The Trust shall not acquire or hold any options

D. Other Investments

Pursuant to Section 3.2 (e) of the Trust Agreement as Amended, in order to achieve the over all after tax real rate of return Trust Investment objective and to meet other Trust objectives, the Trust may under conditions and terms satisfactory to the Trustees, acquire securities or other instruments issued by any person not otherwise defined in this Investment Policy ("Other Investments"), provided however that the aggregate market value of all such Other Investments after acquisition do not exceed two percent of the aggregate value of the Trust Estate.

Proxy Voting Guidelines

Investment managers employed by the Trust are required to vote proxies with the primary objective of maintaining and advancing the economic value of the Trust. Investment managers should work with the Trust custodian to ensure timely receipt of proxies.

Investment managers should have specific guidelines and institute a regular review process for voting proxies.

Guidelines for Manager Selection

The Trustees and Executive Director, with the assistance of the Futures Representative and Chair of the TAC, if desired by the Trustees, will select appropriate investment managers to manage the Trust's assets. This selection process shall include the establishment of specific search criteria, and documentation of analysis and due diligence on potential candidates. All manager candidates must meet the following minimum criteria:

(1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.

(2) Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style.

(3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.

(4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel and demonstrate financial and professional staff stability.

(5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

(6) All investment manager candidates are expected to comply with all laws, regulations, and standards of ethical conduct.

Trustees

Fiduciary and Investment Responsibilities of the Trustees:

- Maintain overall responsibility for financial management of the Trust including the investment of Trust assets consistent with all Trust documents
- Determine the asset allocation of Trust assets through the Investment Policy Statement and investment manager guidelines
- Use "prudent experts" to assist in making investment decisions
- Control investment expenses
- In recognition of their fiduciary duties, the Trustees must act in good faith and not allow their personal interests to prevail over that of the Trust

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is: 10250 Constellation Boulevard, Suite 1700, Los Angeles, CA 90067

A true and correct copy of the foregoing document: **THIRTEENTH ANNUAL REPORT AND ACCOUNTING, AUDITED FINANCIAL STATEMENTS, AND CLAIM REPORT** will be served or was served **(a)** on the judge in chambers in the form and manner required by LBR 5005-2(d); and **(b)** in the manner stated below:

1. **<u>TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)</u>**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **April 26, 2017**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- **Michael H. Ahrens mahrens@sheppardmullin.com**
- **Janet L. Chubb lbubala@kcnvlaw.com, mmarsh@kcnvlaw.com**
- **Michael D. Cooper mcooper@wendel.com, bankruptcy@wendel.com**
- **Richard W. Esterkin richard.esterkin@morganlewis.com, gloria.moonesinghe@morganlewis.com**
- **Gary S. Fergus gfergus@ferguslegal.com**
- **Harden Alexander Fisch Alex.Fisch@doj.ca.gov**
- **Ellen A. Friedman efriedman@friedmanspring.com**
- **Gabriel I. Glazer gglazer@pszjlaw.com**
- **Matthew A. Gold courts@argopartners.net**
- **Frederick D. Holden fholden@orrick.com, cflores@orrick.com**
- **Eve H. Karasik ehk@lnbyb.com**
- **Barbara A. Matthews barbara.a.matthews@usdoj.gov, ustpregion17.oa.ecf@usdoj.gov**
- **Bennett J. Murphy bmurphy@bennettmurphylaw.com**
- **Gregory C. Nuti gnuti@nutihart.com, nwhite@nutihart.com**
- **Philip A. O'Connell philip.oconnelljr@snrdenton.com**
- **Danielle A. Pham dpham@gordonsilver.com**
- **Marcy Railsback Marcy@BovinoRailsback.com, marcyrailsback@hotmail.com**
- **Alan B. Rich ecf@alanrichlaw.com**
- **Steven B. Sacks ssacks@sheppardmullin.com, jnakaso@sheppardmullin.com**
- **John P. Sande jps@jonesvargas.com**
- **James A. Tiemstra jat@tiemlaw.com, sml@tiemlaw.com**

2. <u>SERVED BY UNITED STATES MAIL</u>: On **April 26, 2017**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge <u>will be completed</u> no later than 24 hours after the document is filed.

☒ *Service information continued on attached page*

3. <u>SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL</u> <u>(state method for each person or entity served)</u>: Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on **April 26, 2017**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge <u>will be completed</u> no later than 24 hours after the document is filed.

<u>Served by Overnight Mail</u>
Hon. Hannah L. Blumenstiel
U.S Bankruptcy Court
450 Golden Gate Avenue, 16th Floor
Courtroom 19
San Francisco, CA 94102

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

April 26, 2017	Stephanie Reichert	*/s/ Stephanie Reichert*
Date	*Type Name*	*Signature*

United States Trustee
c/o Office of the United States Trustee
Donna S Tamanaha/Barbara A Matthews
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San Francisco, CA 94102

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Walnut Creek, CA 94596

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