

**IN THE UNITED STATES BANKRUPTCY COURT  
OF THE SOUTHERN DISTRICT OF TEXAS  
CORPUS CHRISTI DIVISION**

<b>In re:</b>	§	<b>Case No. 05-21207</b>
	§	
<b>ASARCO LLC, et al.,</b>	§	<b>Chapter 11</b>
	§	
<b>Debtors</b>	§	<b>Jointly Administered</b>
	§	

**ANNUAL REPORT, FINANCIAL STATEMENTS AND RESULTS OF OPERATIONS  
OF THE ASARCO ASBESTOS PERSONAL INJURY SETTLEMENT TRUST  
FOR FISCAL YEAR ENDED DECEMBER 31, 2018**

Hon. Alfred M. Wolin, Ret., David F. Levi, and Charles A. Koppelman (collectively, the “Trustees”), as Trustees of the ASARCO Asbestos Personal Injury Settlement Trust (the “Asbestos Trust” or “Trust”), respectfully file this Annual Report, Financial Statements and Results of Operations for Fiscal Year Ended December 31, 2018 (the “Report”), pursuant to Asarco Incorporated and Americas Mining Corporation’s Seventh Amended Plan of Reorganization for the Debtors Under Chapter 11 of the United States Bankruptcy Code, as Modified on August 20, 2009, August 23, 2009, and August 27, 2009 (the “Parent Plan”) and the ASARCO Asbestos Personal Injury Settlement Trust Agreement (the “Trust Agreement”).

**I. General**

On August 9, 2005, ASARCO LLC (“ASARCO”) filed a petition for relief under Chapter 11 of the United States Bankruptcy Code. Various affiliates of ASARCO (together with ASARCO, the “Debtors”) filed bankruptcy petitions both before and after ASARCO’s bankruptcy filing. The Debtors’ respective bankruptcy cases are jointly administered under Case No. 05-21207. On September 11, 2009, the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”) entered its amended recommendation in

favor of confirmation of the Parent Plan. On November 13, 2009, the United States District Court for the Southern District of Texas (the “District Court”) adopted the Bankruptcy Court’s recommendation and entered its Memorandum Opinion, Order of Confirmation, and Injunction, confirming the Parent Plan (as modified on November 16, 2009 and December 3, 2009, the “Confirmation Order”). *See* Dkt. No. 79, 80 and 96 in Case No. 2:09-CV-00177.

To address the substantial asbestos-related liabilities of the Debtors, the Parent Plan established the Asbestos Trust in accordance with the Trust Agreement. On December 9, 2009, the Effective Date<sup>1</sup> of the Parent Plan, the Asbestos Trust was created and funded with over \$900 million in assets, including more than \$650 million in cash plus a \$280 million secured note from Reorganized ASARCO (the “ASARCO Note”). In addition, the Asbestos Trust received \$27.5 million to fund the operating expenses of the Asbestos Trust. *See* Parent Plan, section 6.7. The Trustees of the Asbestos Trust are the Hon. Alfred M. Wolin, Ret., David F. Levi, and Charles A. Koppelman.

Under the Trust Agreement, the Trust Advisory Committee (“TAC”) represents the holders of present Asbestos Personal Injury Claims, and the Future Claims Representative (“FCR”) represents the holders of future Asbestos Personal Injury Claims. *See* Trust Agreement, sections 5.2 and 6.1. The TAC members are Steven Kazan, Steven T. Baron, Alan R. Brayton, Bryan O. Blevins and Perry J. Browder. The Hon. Robert C. Pate is the FCR.

The Trust Agreement, at Section 2.2(g), requires that the Asbestos Trust meet with the TAC and FCR no less often than quarterly. The Asbestos Trust held quarterly meetings with

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<sup>1</sup> Capitalized terms not otherwise defined herein shall have the meaning ascribed to such terms in the Parent Plan.

the TAC and the FCR on February 6, 2018, May 22, 2018, September 25, 2018, and November 13, 2018.

The Trustees held weekly Trustees' meetings in 2018 by telephone, beginning on January 2, 2018.

Effective October 1, 2018, Mr. Charles A. Koppelman is the Managing Trustee of the Trust.

The Asbestos Trust kept its principal office at 1105 North Market Street, Suite 1300, Wilmington, DE 19801, and effective October 1, 2018, its administrative office at c/o CAK Entertainment, Attn: Charles A. Koppelman, 1330 Avenue of the Americas, Suite 1800, New York, NY 10019.

The Asbestos Trust continued its retention of the following: Stutzman, Bromberg, Esserman & Plifka, A Professional Corporation (general counsel); CBIZ (accounting and tax work); BDO USA LLP (independent auditors); AON Risk Services Central, Inc. (insurance agent); Legal Analysis Systems (consultant regarding asbestos personal injury claims); Verus Claims Services, LLC ("Verus") (claims processor); U.S. Trust/Bank of America Private Wealth Management ("BoA") (financial consultant, money manager, custodian banking and other banking services); Citi Private Bank (financial consultant, money manager, custodian banking and other banking services); and Anderson Kill & Olick, LLP (insurance coverage counsel). The Trust retained local counsel and other consultants, as needed.

The TAC continued its retention of Caplin & Drysdale as its counsel. The FCR continued his retention of Clark Hill Strasburger as his counsel.

The Asbestos Trust's general counsel, Stutzman, Bromberg, Esserman & Plifka, PC, serves as the custodian of Trust records.

The Asbestos Trust continued liability insurance for the Trustees, the members of the TAC and the FCR.

In 2018, the Asbestos Trust (i) invested and managed its assets; (ii) continued certain pending insurance insolvency proceedings; (iii) processed and paid Pre-Petition Liquidated Asbestos Personal Injury Claims (as defined in the ASARCO Asbestos Personal Injury Settlement Trust Distribution Procedures (“TDP”)); (iv) continued to examine and analyze as needed ASARCO’s, LAQ’s, and CAPCO’s asbestos sales records and historical asbestos records; (v) managed the Asbestos Trust’s website, [www.asarcotrust.com](http://www.asarcotrust.com); (vi) accepted Asbestos Personal Injury Claims based on CAPCO Exposure, LAQ Exposure and/or both, as defined in the TDP; (vii) processed both CAPCO claims and LAQ claims, providing directions to the claims facility for the liquidation of the Asbestos Personal Injury Claims; (viii) continued paying Asbestos Personal Injury Claims; (ix) reviewed accounting and auditing functions for the Trust; (x) consulted with Legal Analysis Systems regarding claims data and forecasts of the Trust’s liability for Asbestos Personal Injury Claims; (xi) sought dismissals of any state court litigation filed against ASARCO in violation of the 524(g) channeling injunction; (xii) handled and processed premises claims; (xiii) posted appropriate notices on the Trust’s website for all claimants; (xiv) conducted audits of Asbestos Personal Injury Claims submitted to the Trust pursuant to an audit program adopted under the TDP; (xv) renewed director and officer liability insurance policies to replace expiring policies; (xvi) monitored the methodology for liquidating Asbestos PI Claims under the Individual Review procedures of the TDP; (xvii) performed all functions required for Trust governance, including maintaining the Trust’s books and records, and responding to subpoenas for information and other processes; (xviii) purchased cyber security protection insurance from

AXIS Insurance Company; (xix) adopted an Indirect Asbestos Personal Injury Claim Form, and (xx) addressed subpoenas and discovery requests to produce information as appropriate, including a Civil Investigative Demand from the United States Department of Justice seeking information with respect to the Medicare Secondary Payer Act.

The process for reviewing and liquidating Asbestos PI Claims is governed by the TDP. The TDP recognizes that estimates of liabilities and the value of assets fluctuate over time and, accordingly, applies a “Payment Percentage” to the liquidated value of allowed Asbestos PI Claims other than a claim involving Other Asbestos Disease (Disease Level I-Cash Discount Payment) and Asbestos Premises Liability Claims covered by an applicable Asbestos Insurance Policy. *See* TDP § 2.3. The TDP directs the Trustees to periodically “reconsider the then applicable Payment Percentage to assure that the Payment Percentage is based on accurate and current information,” and to, if necessary, change the Payment Percentage with the consent of the TAC and the FCR. *Id.* at § 4.2. In making this determination, the Trustees are directed to “base their determination of the Payment Percentage on current estimates of the number, types, and values of present and future Asbestos Personal Injury Claims, the value of the assets then available to the Asbestos Trust for payment of Asbestos Trust Determined Claims, all anticipated administrative and legal expenses, and any other material matters that are reasonably likely to affect the sufficiency of funds to pay a comparable percentage of full value to all holders of Asbestos Personal Injury Claims.” *Id.* The Trustees are further directed to “exercise common sense and flexibly evaluate all relevant factors.” *Id.* Effective September 25, 2018, the Trustees increased the Payment Percentage from 22% to 35%.

## II. Asbestos Personal Injury Claims

The Asbestos Trust came into existence on December 9, 2009. In 2018, the Trustees accepted and processed 56 Pre-Petition Liquidated Asbestos Personal Injury Claims, ultimately paying, after application of the Payment Percentage, \$138,978 on account of such Pre-Petition Liquidated Asbestos Personal Injury Claims; the Trust also made \$1,637 in supplemental payments to four Pre-Petition Liquidated Asbestos Personal Injury Claims, resulting from the increase of the Payment Percentage from 22% to 35%.

In addition, in 2018 the Asbestos Trust, through Verus, its claims processing facility, continued accepting unliquidated Asbestos Personal Injury Claims. Verus processed and paid various Asbestos Personal Injury Claims in 2018. Through December 31, 2018, 389,812 unliquidated Asbestos Personal Injury Claims were submitted to the Asbestos Trust, as follows:

<b>Disease Level</b>	<b>Claims to date</b>	<b>Claims in 2018</b>
Other Asbestos Disease (Level I)	16,167	1,206
Nonmalignant Asbestos Disease (Level II)	153,964	8,059
Nonmalignant Asbestos Disease (Level III)	85,709	5,985
Severe Asbestosis (Level IV)	7,271	383
Other Cancer (Level V)	15,446	1,175
Lung Cancer 2 (Level VI)	10,250	571
Lung Cancer 1 (Level VII)	50,532	3,160
Mesothelioma (Level VIII)	33,662	1,890
Unknown	16,811	483
<b>Total:</b>	<b>389,812</b>	<b>22,912</b>

Of the 22,912 Asbestos Personal Injury Claims submitted to the Trust in 2018, 575 have been withdrawn, 7,007 have been deferred, and 2,634 have been approved for payment.<sup>2</sup>

<sup>2</sup> The Trust's audited financial statements attached hereto as Exhibit A set forth in Note 6, on page 12, that the Trust "received" 22,969 new claim filings in 2018, whereas the 22,912 submitted claims

Since inception, not including premises claims, the Trust has paid a total of \$307,227,975 on account of unliquidated Asbestos Personal Injury Claims, of which \$143,147,588 was paid in 2018, including approximately \$89,217,000 in supplemental payments in 2018 as a result of the increase in the Payment Percentage.

Under Section 3.3 of the Trust Agreement, the Trust reports payments for Asbestos PI Trust Expenses. The Trust's operating expenses are listed in the Supplemental Information to the attached audited financial statements as addressed below.

### **III. Compensation and Expenses of Trustees, TAC, and FCR**

Under Section 4.5(c) of the Trust Agreement, the Asbestos Trust reports to the Bankruptcy Court the amount of compensation and expenses paid to the Trustees. The Trustees have received, on an accrual basis, compensation and reimbursement for out-of-pocket expenses for the fiscal year ending December 31, 2018, as follows:

Trustees (3)	\$1,076,716.79
Delaware Trustee	\$3,000.00, plus \$1,500 Delaware Agent Fees

Under Section 5.6 of the Trust Agreement, the Asbestos Trust reports to the Bankruptcy Court the amount of compensation and expenses paid to the TAC members. The TAC has received, on an accrual basis, compensation and reimbursement for fees and expenses, including counsel, during the fiscal year ending December 31, 2018, as follows:

TAC	\$ 95,521.46
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Under Section 6.5 of the Trust Agreement, the Asbestos Trust reports to the Bankruptcy Court the amount of compensation and expenses paid to the FCR. The FCR has

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presented above sets forth the number of claims received and logged by Verus in 2018. Thus, 22,969 claims reported in the audited financial statements include claims received but not yet logged by Verus as of December 31, 2018.

received, on an accrual basis, compensation and reimbursement for fees and expenses, including counsel, during the fiscal year ending December 31, 2018, as follows:

FCR	\$157,059.08,	plus
	\$5,443.75	paid to FCR
		consultants Ankura.

**IV. Financial Statements**

A copy of the Asbestos Trust's audited financial statements for the year ending December 31, 2018, including a balance sheet as of December 31, 2018, and a statement of operations for 2018, is attached hereto as Exhibit A. Exhibit A also includes BDO USA LLP's opinion as to the fairness of the financial statements' presentation of the cash and investments available for the payment of claims and as to the conformity of the financial statements with special purpose accounting methods.

The Asbestos Trust provided copies to the TAC and FCR on April 29, 2019.

**V. Certification**

The Trustees certify that they have performed pursuant to and in compliance with the Parent Plan, the Trust Agreement, the TDP, the Confirmation Order, and such other Parent Plan documents and Bankruptcy Court orders pertaining to the operation of the Asbestos Trust during the fiscal year ended December 31, 2018.

**TRUSTEES:**

/s/ Alfred M. Wolin  
HON. ALFRED M. WOLIN, RET.

/s/ David F. Levi  
DAVID F. LEVI

/s/ Charles A. Koppelman  
CHARLES A. KOPPELMAN





# ASARCO Asbestos Personal Injury Settlement Trust

Audited Special-Purpose  
Financial Statements  
Years Ended December 31, 2018 and 2017

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



# **ASARCO Asbestos Personal Injury Settlement Trust**

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Audited Special-Purpose Financial Statements  
Years Ended December 31, 2018 and 2017

# ASARCO Asbestos Personal Injury Settlement Trust

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## Independent Auditor's Report

Trustees  
ASARCO Asbestos Personal Injury Settlement Trust  
New York, New York

We have audited the accompanying special-purpose financial statements of ASARCO Asbestos Personal Injury Settlement Trust (the Trust) which comprise the special-purpose statements of assets, liabilities and net claimants' equity as of December 31, 2018 and 2017, and the related special-purpose statements of changes in net claimants' equity and special-purpose statements of cash flows for the years then ended and the related notes to the special-purpose financial statements.

### ***Management's Responsibility for the Special-Purpose Financial Statements***

Management is responsible for the preparation and fair presentation of the special-purpose financial statements in accordance with the basis of accounting described in Note 2 to the special-purpose financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special-purpose 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 special-purpose 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 special-purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special-purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special-purpose 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 entity'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 special-purpose 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 special-purpose financial statements referred to above present fairly, in all material respects, the net claimants' equity of the Trust as of December 31, 2018 and 2017, and the changes in net claimants' equity and cash flows for the years then ended in accordance with the special-purpose basis of accounting described in Note 2 to the special-purpose financial statements.

***Basis of Accounting***

We draw attention to Note 2 of the special-purpose financial statements, which describes the basis of accounting. As described in Note 2, these special-purpose financial statements were prepared on a special-purpose 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 on this matter. The special-purpose basis of accounting has been used in order to communicate the amount of net equity presently available to fund current and future claimants.

***Restriction of Use***

Our report is intended solely for the information and use of the management of the Trust and is not intended to be and should not be used by anyone other than the specified party. This restriction is not intended to limit the distribution of this report which, upon filing with the United States Bankruptcy Court for the Southern District of Texas, is a matter of public record.

*BDO USA, LLP*

April 22, 2019

## Special-Purpose Financial Statements

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# ASARCO Asbestos Personal Injury Settlement Trust

## Special-Purpose Statements of Assets, Liabilities and Net Claimants' Equity

December 31,	2018	2017
<b>Assets</b>		
Cash and cash equivalents		
Citibank	\$ 31,346,597	\$ 39,297,783
U.S. Trust	21,489,243	27,541,752
Bank of America	550	-
Peapack-Gladstone	200	200
<b>Total cash and cash equivalents</b>	<b>52,836,590</b>	<b>66,839,735</b>
Investments		
Citibank		
Investment securities	428,827,329	501,080,982
Alternative investments	13,790,500	16,174,475
Income receivable	4,259,096	4,082,026
U.S. Trust		
Investment securities	410,325,479	485,742,380
Alternative investments	6,325,000	10,383,693
Income receivable	3,797,814	4,344,805
<b>Total investments</b>	<b>867,325,218</b>	<b>1,021,808,361</b>
Other assets		
Prepaid federal income taxes	1,000,000	-
Other assets	130,731	132,910
<b>Total assets</b>	<b>1,130,731</b>	<b>132,910</b>
<b>Total assets</b>	<b>921,292,539</b>	<b>1,088,781,006</b>
<b>Liabilities</b>		
Settled claims payable	10,050,327	2,073,956
Accounts payable	397,628	269,115
<b>Total liabilities</b>	<b>10,447,955</b>	<b>2,343,071</b>
<b>Net claimants' equity</b>	<b>\$ 910,844,584</b>	<b>\$ 1,086,437,935</b>

*See accompanying notes to the special-purpose financial statements.*

**ASARCO Asbestos Personal Injury Settlement Trust**  
**Special-Purpose Statements of Changes in Net Claimants' Equity**

<i>Years Ended December 31,</i>	2018	2017
<b>Additions</b>		
Investment income		
Interest and dividend, net	\$ 25,654,933	\$ 25,413,485
Realized gains on sale of investment securities	16,882,907	13,686,875
Net change in fair value of alternative investments	-	1,533,431
Capital gains distributions	347,888	322,053
Unrealized gain on investment securities	-	42,699,147
Other income	550	500
<b>Total additions</b>	<b>42,886,278</b>	<b>83,655,491</b>
<b>Deductions</b>		
Claims settled	151,264,975	49,701,030
Change in unrealized gain on investment securities	50,212,786	-
Net change in fair value of alternative investments	1,076,544	-
Investment advisory fees	3,151,737	3,200,801
General and administrative expenses		
Trustees	1,076,717	991,976
Claims processing fees	1,108,690	1,288,283
Claims consulting and forecasting fees	203,424	70,768
Insurance	141,407	127,306
Accounting	300,957	267,196
Future claims representative fees and expenses	162,504	102,958
Others	30,122	25,942
Professional services		
Trust professional fees		
Trust general counsel	933,414	771,699
Trust insurance, special and local counsel	420,830	260,259
TAC attorney fees and expenses	95,522	50,367
Federal income tax	8,300,000	1,066,158
<b>Total deductions</b>	<b>218,479,629</b>	<b>57,924,743</b>
<b>(Decrease) increase in net claimants' equity</b>	<b>(175,593,351)</b>	<b>25,730,748</b>
<b>Net claimants' equity at the beginning of the year</b>	<b>1,086,437,935</b>	<b>1,060,707,187</b>
<b>Net claimants' equity at the end of the year</b>	<b>\$ 910,844,584</b>	<b>\$ 1,086,437,935</b>

*See accompanying notes to the special-purpose financial statements.*

# ASARCO Asbestos Personal Injury Settlement Trust

## Special-Purpose Statements of Cash Flows

<i>Years Ended December 31,</i>	2018	2017
<b>Cash flows from operating activities:</b>		
Net (decrease) increase in net claimants' equity	\$ (175,593,351)	\$ 25,730,748
Adjustments to reconcile net (decrease) increase in net claimants' equity to net cash used in operating activities:		
Realized gain on sale of investment securities	(16,882,907)	(13,686,875)
Net change in fair value of alternative investments	1,076,544	(1,533,431)
Change in unrealized gain on investment securities, net	50,212,786	(42,699,147)
Amortization of bond premium	10,126,313	10,111,070
Changes in operating assets and liabilities:		
Prepaid federal income taxes	(1,000,000)	511,594
Other assets	2,179	(1,412)
Settled claims payable	7,976,371	(109,100)
Accounts payable	128,513	55,701
<b>Net cash used in operating activities</b>	<b>(123,953,552)</b>	<b>(21,620,852)</b>
<b>Cash flows from investing activities:</b>		
Change in accrued income receivable	369,921	118,186
Proceeds from sales of investments	392,528,984	213,044,956
Purchases of investments	(282,948,498)	(194,540,981)
<b>Net cash provided by investing activities</b>	<b>109,950,407</b>	<b>18,622,161</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(14,003,145)</b>	<b>(2,998,691)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>66,839,735</b>	<b>69,838,426</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 52,836,590</b>	<b>\$ 66,839,735</b>

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

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### 1. Description of the Trust

The ASARCO Asbestos Personal Injury Settlement Trust (the Trust), organized pursuant to the laws of the State of Delaware, was established on December 9, 2009 and is a “qualified settlement fund” pursuant to the meaning of Section 1.468B-1 et seq. to the Treasury Regulations promulgated under Section 468B of the Internal Revenue Code. The Trust was formed to assume all Asbestos PI Trust Claims (whether now existing or arising at any time hereafter) and to use the Asbestos PI Trust assets to pay holders of claims in accordance with the Asbestos PI Trust Agreement. The Trust’s funding is dedicated solely to the settlement of asbestos personal injury claims and the related costs thereto, as defined in the ASARCO Personal Injury Settlement Trust Agreement (Trust Agreement). The Trust’s principal office is in Wilmington, Delaware and its administrative office moved to New York, NY in 2018. Defined terms have the meaning that is defined in the Trust Agreement.

### 2. Significant Accounting Policies

#### *Basis of presentation*

The Trust’s financial statements are prepared using special-purpose accounting methods adopted by the Trustees, which differ from accounting principles generally accepted in the United States of America (GAAP). The special-purpose accounting methods were adopted in order to communicate to the beneficiaries of the Trust the net claimants’ equity and related operating expenses of the Trust. Since the accompanying special-purpose financial statements and transactions are not based upon GAAP, accounting treatment by other parties for these same transactions may differ as to timing and amount. The special-purpose accounting methods include the following:

- a. Investment securities are recorded at fair market value. All interest and dividend income, net of investment expenses, are included in investment income in the accompanying special-purpose statements of changes in net claimants’ equity. Net realized and unrealized gains and (losses) on investment securities are recorded as a net addition or (deduction) in the special-purpose statements of changes in net claimants’ equity.
- b. Taxable and nontaxable fixed income securities are stated at amortized cost, with amortization and accretion of bond premiums or discounts included in investment income.
- c. Insurance recoveries are recorded when the related policies are settled and collectability is assured from the insurance carriers. These recoveries come from various insurance settlements, which were obtained by entities which assigned the rights to such policies to the Trust or were negotiated by the Trust.
- d. Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions in the same period that such contractual obligations or agreements are signed. Under GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

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- e. The full amounts of claims are generally treated as deductions from net claimants' equity in the period in which the settled claims are approved for payment. A settled claim is a claim that has been accepted by the claimant, with an executed release submitted to the Trust, and approved by the Trustees. Under GAAP, a liability would be recorded for an estimate of the amount to be paid for claims that have been incurred but not yet reported, and for those claims that have been submitted but not yet approved for payment by the Trust.
- f. Income tax expense is estimated and recorded as incurred in the period in which certain income and expense items affect current federal income taxes payable. Income tax refunds are recorded when cash is received by the Trust. Under GAAP, the provision for income taxes is recorded based upon income reported for financial statement purposes, and federal and state income taxes both currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities, such as unrealized gains and losses on investment securities.

### ***Use of estimates***

The preparation of special-purpose 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 certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the special-purpose financial statements, as well as the reported amounts of additions and deductions to net claimants' equity during the reporting period. Actual results could differ from those estimates and such differences could have a material effect on net claimants' equity.

### ***Cash equivalents and investment securities***

The Trust considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Investment securities are stated at fair market value with changes in unrealized gains and losses recorded in the current period. Investment income is recognized when earned. Any unearned interest and dividend income are recorded as accrued interest and dividends receivable. Realized gains and losses on sales are determined using the specific identification method.

### ***Accrued claims, accrued expenses and accounts payable***

Accrued claims consist of certain claims that are settled but unpaid at December 31, 2018 and 2017. A settled claim is a claim that has been accepted by the claimant, with an executed release submitted to the Trust, and approved by the Trustees. An unpaid claim is a claim that has been approved for payment by the Trustees, but cannot be paid due to annual cap limitations or has been authorized by the Trustees and not paid. Unpaid claims that are a result of annual cap limitations are recorded when settled.

Accounts payable consist of outstanding invoices associated with managing the Trust.

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

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### *Operating expenses*

Operating expenses of the Trust are recorded as deductions on the special-purpose statements of changes in net claimants' equity in the period in which the invoices are received and approved.

### *Income taxes*

The Trust is classified as a Qualified Settlement Fund under the Internal Revenue Code. As a result, the Trust is subject to federal income taxes based on modified gross income. In the opinion of Trust's management, the Trust is not subject to state income taxes, and therefore, special-purpose financial statements do not include any provision or liability for state income taxes.

The Trust files income tax returns in the United States of America (U.S.) federal jurisdiction. The Trust's federal income tax returns are generally subject to income tax examination by the Internal Revenue Service for a period of 3 years from the date the tax returns are filed. Since the Trust was formed during 2009, all tax returns filed after tax years 2014 through 2017 are still subject to examination.

The Trust records income tax expense (or benefit) associated with amounts payable (or receivable) under current federal income taxes and does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for deferred taxes associated with changes in cumulative unrealized gains and losses on investments (see Note 5). The income taxes associated with gains on investments will be recorded in the Trust's special-purpose financial statements when the net gains are realized (i.e. the securities are sold) and the income taxes become currently payable.

### *Risk and uncertainties*

The Trust's assets that are exposed to credit risk consist primarily of cash and cash equivalents and investment securities. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Trust has never experienced any losses related to these balances. There is no amount on deposit in excess of federally insured limits at December 31, 2018.

The Trust invests in a professionally managed investment portfolio that contains common shares of publicly traded companies, corporate and government obligations, commodities, and alternative investments. Such investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Trust's account balance and the amounts reported in the special-purpose statements of assets, liabilities and net claimants' equity.

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

### 3. Cash, Cash Equivalents and Investment Securities

Cash, cash equivalents, and investment securities consist of the following at December 31, 2018:

	Cost	Fair Market Value	Unrealized Gains
Cash and cash equivalents	\$ 52,836,590	\$ 52,836,590	\$ -
Equities	153,617,469	197,110,513	43,493,044
Bonds	634,075,267	642,042,295	7,967,028
<b>Total cash, cash equivalents and investment securities</b>	<b>\$ 840,529,326</b>	<b>\$ 891,989,398</b>	<b>\$ 51,460,072</b>

Cash, cash equivalents, and investment securities consist of the following at December 31, 2017:

	Cost	Fair Market Value	Unrealized Gains
Cash and cash equivalents	\$ 66,839,735	\$ 66,839,735	\$ -
Equities	175,981,841	260,615,927	84,634,086
Bonds	709,168,662	726,207,434	17,038,772
<b>Total cash, cash equivalents and investment securities</b>	<b>\$ 951,990,238</b>	<b>\$ 1,053,663,096</b>	<b>\$ 101,672,858</b>

The maturities of the Trust's investment in bonds are as follows as of December 31, 2018:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Year Through 10 Years	After 10 Years	Total
<b>Bonds</b>	<b>\$ 17,225,247</b>	<b>\$ 176,654,133</b>	<b>\$ 265,709,902</b>	<b>\$ 182,453,013</b>	<b>\$ 642,042,295</b>

The maturities of the Trust's investment in bonds are as follows as of December 31, 2017:

	Less than 1 Year	After 1 Year Through 5 Years	After 5 Year Through 10 Years	After 10 Years	Total
<b>Bonds</b>	<b>\$ 20,919,083</b>	<b>\$ 202,504,032</b>	<b>\$ 334,328,295</b>	<b>\$ 168,456,024</b>	<b>\$ 726,207,434</b>

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

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### 4. Fair Value Measurements

The Trust's investments are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants in an orderly transaction on the measurement date. The market in which the reporting entity would sell the asset or transfer the liability with the greatest volume and level of activity for the asset or liability is known as the principal market. When no principal market exists, the most advantageous market is used. This is the market in which the reporting entity would sell the asset or transfer the liability with the price that maximizes the amount that would be received or minimizes the amount that would be paid. Fair value is based on assumptions market participants would make in pricing the asset or liability. Generally, fair value is based on observable quoted market prices or derived from observable market data when such market prices or data are available. When such prices or inputs are not available, the Trust would use valuation models.

The Trust's assets recorded at fair value on a recurring basis are categorized based on the priority of the inputs used to measure fair value. The inputs used in measuring fair value are categorized into three levels, as follows:

- **Level 1** - Inputs that are based upon quoted prices for identical instruments traded in active markets.
- **Level 2** - Inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar investments in markets that are not active, or models based on valuation techniques for which all significant assumptions are observable in the investment.
- **Level 3** - Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following section describes the valuation methodologies the Trust uses to measure its financial assets at fair value.

*Equities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Bonds:* Valued using the documented trade price if trading in an active market. Otherwise, valued using a metrics system provided by the pricing vendors.

*Alternative investments:* Valued using the Trust's proportionate share of each fund's net assets, as reported as of the date of the special-purpose financial statements.

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

Investments measured at fair value on a recurring basis are summarized below:

As of December 31, 2018				
<i>Description</i>	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 52,836,590	\$ 52,836,590	\$ -	\$ -
Equities	197,110,513	197,110,513	-	-
<b>Bonds:</b>				
Government	27,816,161	27,816,161	-	-
Corporate	30,386,416	-	30,386,416	-
International	4,488,971	-	4,488,971	-
Municipal	579,350,747	-	579,350,747	-
<b>Total bonds</b>	<b>642,042,295</b>	<b>27,816,161</b>	<b>614,226,134</b>	<b>-</b>
Alternative investments	20,115,500	-	-	20,115,500
<b>Total assets at fair value</b>	<b>\$ 912,104,898</b>	<b>\$ 277,763,264</b>	<b>\$ 614,226,134</b>	<b>\$ 20,115,500</b>

As of December 31, 2017				
<i>Description</i>	Assets Measured At Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 66,839,735	\$ 66,839,735	\$ -	\$ -
Equities	260,615,928	260,615,928	-	-
<b>Bonds:</b>				
Government	-	-	-	-
Corporate	72,134,419	-	72,134,419	-
International	1,002,430	-	1,002,430	-
Municipal	653,070,585	-	653,070,585	-
<b>Total bonds</b>	<b>726,207,434</b>	<b>-</b>	<b>726,207,434</b>	<b>-</b>
Public real estate investment trusts	-	-	-	-
Alternative investments	26,558,168	-	-	26,558,168
<b>Total assets at fair value</b>	<b>\$ 1,080,221,265</b>	<b>\$ 327,455,663</b>	<b>\$ 726,207,434</b>	<b>\$ 26,558,168</b>

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

### *Level 3 gains and losses*

The following table sets forth a summary of changes in the fair value of the Trust's alternative investments (Level 3 assets) for the years ended December 31, 2018 and 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	2018	2017
Balance at the beginning of the year	\$ 26,558,168	\$ 29,311,333
Purchases	18,634,751	6,025,669
Liquidations / distributions	(24,000,874)	(10,312,265)
Net change in fair value	(1,076,545)	1,533,431
Balance at the end of the year	\$ 20,115,500	\$ 26,558,168

Alternative investments generally employ long, short and multi-trading strategies in various markets. These funds have semi-annual and quarterly redemption periods with notice periods of between 45 to 99 days.

### 5. Income Taxes

The Trust's provision for federal income taxes currently payable for the year ended December 31, 2018 is approximately \$8,300,000. During the year ended December 31, 2018, the Trust made estimated tax payments totaling \$6,430,000. In addition, the Trust carried over approximately \$2,600,000 of estimated overpayments from 2017. The aggregate estimated overpayment of \$1,000,000 as of December 31, 2018 is reported as prepaid federal income taxes in the accompanying special-purpose statements of assets, liabilities, and net claimants' equity for the year ended December 31, 2018. During the year ended December 31, 2017, the Trust made estimated income tax payments totaling approximately \$3,111,000 and received refunds totaling approximately \$2,045,000.

As disclosed in Note 2 to the special-purpose financial statements, the Trust does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for deferred taxes associated with net operating loss carry forwards, net capital loss carryforwards, or cumulative unrealized gains and losses on investments.

### 6. Claims Settled

For the years ended December 31, 2018 and 2017, the Trust settled 44,223 and 18,060 claims totaling \$151,264,975 and \$49,701,030, respectively. During the years ended December 31, 2018 and 2017, the Trust paid 44,697 and 17,948 claims, respectively. For the years ended December 31, 2018 and 2017, the Trust received 22,969 and 18,070 new claim filings, respectively.

# ASARCO Asbestos Personal Injury Settlement Trust

## Notes to the Special-Purpose Financial Statements

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### 7. Contingent Liabilities

The Plan Documents (as defined in the Confirmed Plan) subject the Trust to certain reimbursement and indemnification obligations that may result in future claims against the Trust. The probability of such claims cannot be reasonably determined. Accordingly, no associated liability has been recorded in the accompanying special-purpose financial statements. Such claims, if any, are not expected to be material.

### 8. Liability for Asbestos Claims

Personal injury claims that were settled, but unpaid as of December 31, 2018 and 2017, have been accrued and included in claims payable. These amounts have been included in deductions from net claimants' equity in the accompanying special-purpose statements of changes in net claimants' equity for the payment of claims for the years ended December 31, 2018 and 2017.

The Trust considers settled claims as claims that were approved through the claims review process for which the claimant has returned a signed release to the Trust.

The ultimate number of Asbestos PI Trust Claims to be filed and the liability for all such claims are not determinable at this time. The net claimants' equity at December 31, 2018 and 2017 represents funding available for all Asbestos PI Trust Claims for which no fixed liability has yet been established.

### 9. Subsequent Events

The Trust has evaluated its December 31, 2018 special-purpose financial statements for subsequent events through April 22, 2019, the date the special-purpose financial statements were available to be issued. The Trust is not aware of any subsequent events which would require recognition or disclosure in the special-purpose financial statements.