November 27, 2003

Dear FSSU Member:

EQUITABLE LIFE WITH-PROFITS AND UNITIZED FUNDS


Highlights of the Interim Accounts, which are posted on Equitable Life’s website, are as follows:

**Current Status of Equitable Life**

- The Society was solvent on June 30, 2003, according to Equitable’s Interim Accounts. This has been verified by the Financial Services Authority.
- A non-guaranteed bonus of 3.5% was declared effective as of April 1, 2003.
- Over the past six months, Equitable’s Fund for Future Appropriations fell by £103 million to £453 million. The FFA is the most important measure of the Society’s financial position.
- Equitable’s excess assets over its regulatory Required Minimum Margin equalled £254 million at June 30, down from £356 million at December 31, 2002.
- In the Interim Statement, Equitable stated that their principal exposures to a “going concern basis” were “increases in provisions, investment losses, impact of discretionary bonus payments, future expense levels and mortality risks.”
- Equitable’s June 30, 2003 stated objective “is for net income to be adequate in future years at least to meet those guarantees and any increase in guarantees.”
- Standard & Poor’s has assigned a B- credit rating to Equitable Life, a low rating among UK life companies. Standard & Poor’s recently reaffirmed a negative outlook for all UK life insurers.
• Current terms:
  o On retirement, the maturity adjustment of 10% introduced July 1, 2002 was consolidated into indicative policy values on March 31, 2003, however this adjustment will not reduce the policy value below the guaranteed value.
  o The indicative value consists of the guaranteed benefit plus non-guaranteed bonuses. The guaranteed benefit is comprised of the November, 1998 transfer of endowment policies to offshore Equitable funds, which transfer guaranteed terminal bonuses in effect at that time, plus contributions and guaranteed bonuses paid since that date.
  o On early surrender, an adjustment of 20% is applied to the indicative policy value and the minimum guaranteed value is removed.

Comments from FPS

FPS Group has written a letter to members dated July 11, 2003 wherein they make the following statements regarding Equitable’s Unitized Funds (see attached):

• “We are writing to you as the company responsible for the management of FSSU because we believe that you still have money invested in the Equitable Life Unitized Funds.”
• “Equitable Life has recently published its 2002 Accounts that confirm that it remains a weak business operating on a small solvency margin. This situation continues to cause us concern, particularly in regard to members invested in the Unitized Funds who could switch to similar funds with Barclays Global Investors or Friends Provident without penalty.”
• “We recommend that you again review whether your interests are best served by remaining invested in the Equitable Unitized Funds.”

B&W Deloitte review

The University thereafter requested that B&W Deloitte review the FPS Group recommendation and Equitable Life’s financial position. B&W Deloitte recently provided the following comments:

• “The unit-linked business has been reassured with the Halifax but legally remains with Equitable as far as policyholders are concerned. As such it has limited capital available to cover solvency, and less opportunity than a proprietary company to raise more capital if it gets into difficulties.”
• “The well-publicised problem at Equitable over recent years has involved the with-profits funds, where policyholders in those funds have suffered reductions in their discretionary, but not their guaranteed, benefits.”
• “In an extreme situation, it could be necessary to make reductions to all guaranteed benefits granted by the company, including those on unit-linked policies. Hence, although Equitable’s problems have arisen in connection with the non-linked business, the linked funds may not be immune from the results of an insolvency.”
• “It is relevant therefore to the unit-linked Equitable policyholders to consider the financial position of the with-profits business.”
• “The issues raised by FPS are all potentially important, and members should review each of them in detail before assessing their significance.”
• “The underlying asset allocation of a with-profits style fund is a compromise between the needs of different members. For members with several years to retirement the bond content is arguably too high, for members just before retirement the equity content is far too high. The Equitable Life With Profits Fund’s main concern is security and therefore reducing the volatility in the absolute value of the fund. As a result the underlying asset allocation of the Equitable Life With Profits Fund is now heavily in favour of bonds and we understand this will continue for the time being.”
• “The decision as to what to do about your investment in the Equitable Life With Profits Fund is a matter for you to determine in the light of your personal circumstances.”
• “You are strongly advised to seek independent financial advice.”

Equitable’s annual statements to FSSU members will be distributed on November 28, 2003.

Yours sincerely,

Winston H. Bayley  
Chairman, University Pension Committee
11 July 2003

Dear Member

FEDERATED SUPERANNUATION SYSTEM FOR THE UNIVERSITY OF THE WEST INDIES

EQUITABLE LIFE UNITISED FUNDS

We are writing to you as the company responsible for the management of FSSU because we believe that you still have money invested in the Equitable Life Unitised Funds.

Equitable Life has recently published its 2002 Accounts that confirm that it remains a weak business operating on a small solvency margin. This situation continues to cause us concern, particularly in regard to members invested in the Unitised Funds who could switch to similar funds with Barclays Global Investors or Friends Provident without penalty.

The position of Equitable has not materially changed since our sister company, FPS Financial Services Limited, issued the attached statement in October last year. Apart from performance issues, switching to the alternative funds gains you access to quarterly performance bulletins as well as, via the scheme website, to your fund values whenever you need them. Equitable no longer issues regular information about its funds' performance.

We recommend that you again review whether your interests are best served by remaining invested in the Equitable Unitised Funds. If you decided that you wish to switch please complete the attached switch form and hand it to your Bursary who will make the necessary arrangements.
What is Equitable Life's situation?

Equitable has reached a Compromise Agreement with its with profit policyholders under which policyholders have been granted an uplift in policy values in exchange for the giving up of rights. However, Equitable remains a weak company.

It is probable that Equitable will be able to continue but its low free reserve ratio, which has resulted in it currently having only 15% of the with profit fund invested in equities, means that the prospects are not good for with profit policyholders.

Future legal actions

Equitable is involved in legal actions both for and against it.

They have taken action against former directors and auditors for negligence in the management and monitoring of the with profit fund. There is also some pressure on Government to offer compensation for lack of action by the regulatory body.

However, it is not at all clear that these approaches will produce significant compensation. The UK government has consistently taken the position that they will not get involved and the chances of raising significant sums through the court actions are relatively low.

Could Equitable Life still become insolvent?

It is still possible for Equitable Life to become insolvent in the sense of it not being able to meet its with profit policy guarantees. The appropriate test of its ability to meet these guarantees are laid down by the regulatory authorities as is the case with all insurance companies. Solvency is closely monitored by the Financial Services Authority. Equitable's published accounts and statutory returns at 31 December 2001 indicated that it was solvent, which position was reaffirmed at its AGM in May 2002. However, if markets continue a sustained fall or there is some other major adverse development, insolvency could still become an issue.

There is no doubt that Equitable is operating on a small solvency margin and that solvency is dependent on the assumptions adopted which are currently less conservative than they have been at some times in the past although still within the regulators guidelines.

As an investor in Equitables unitised funds, should I be concerned?

The short answer is yes. When the Halifax Bank acquired most of the assets of Equitable in
February 2001, the management of the unitised funds was transferred to the Halifax under the terms of a re-insurance arrangement. Because of the nature of this arrangement there are concerns that in the event that Equitable did become insolvent, the liquidator could make a successful claim on the unit linked funds. Originally it was widely thought that the unit linked funds could not be affected in this way. However one the most eminent firms of Actuaries has sought to resolve the position definitively and has not been able to obtain a reassurance that a Liquidator could not make a successful claim on Unit Linked policy holders. Unfortunately the strength of this argument would only be tested in the courts in the event that Equitable does become insolvent.

At the time of the acquisition by Halifax we expressed concern as to the priority that they (or Clerical Medical who are a subsidiary of Halifax and manage the funds) would give to the investment of the unitised funds as they were closed funds. Although 12 months is a very short period in investment terms the signs are not good with Equitable's unitised funds considerably underperforming the unitised funds offered under the Scheme by Friends Ivory Sime (previously Royal & Sun Alliance) and BGI.

It has consistently been FPS’s view that members should seriously consider transferring unit linked assets as a priority.

**Can I remove my unitised funds from Equitable Life?**

Members can cash-in their unitised funds at any time and transfer the proceeds to any of the other investment options available under the Scheme. Members do not suffer any penalty for withdrawing unitised funds from Equitable. Your Bursary will provide the appropriate form for you to complete and will arrange the transfer.

**IMPORTANT NOTE**

This note has been provided to the Trustee as a guide as to the factors which may make individual surrender of Equitable Life unitised funds attractive. Neither FPS nor the Trustee can give advice to an individual member about what decision he or she should take, since they do not know anything about personal and financial circumstances and attitude to risk.

Any member reading this note must make his/her own decision and should take professional advice, if necessary.