

the Sage Trust. Sage Advisors is a wholly-owned subsidiary of SIGI. Sage Advisors has engaged sub-advisers for each of the Portfolios of the Sage Trust to make investment decisions and place orders.

5. Sage Life anticipates that the Sage Trust expense reimbursement arrangement will be discontinued as of May 1, 2003, and will result in a substantial increase in Sage Trust expenses with a corresponding decrease in the performance of the Sage Trust Portfolios. To date, the cash needs of the Sage insurance operations in the United States (including Sage Life), have been met primarily through (i) capital contributions from Sage Group, (ii) the funding of Sage Life's commission and acquisition expenses through a modified coinsurance arrangement ("Modco Agreement") with Swiss Re, (iii) issuance of preferred stock to Swiss Re, and (iv) through interest income on the invested assets of SIGI and Sage Life's general account.

During 2001, it was determined that the cash needs of SIGI and its subsidiaries could not be met solely by the methods described above. Sage Group had been and is currently prohibited under South African currency controls from using funds raised in South Africa for SIGI's cash needs, other than with funds raised through capital issues denominated in currencies other than the South African rand. Furthermore, Sage Group's ability to issue stock outside of South Africa has been hindered by a severe devaluation of the South African rand relative to the United States dollar and a decrease in its stock price reflective of a general decline of financial services stocks in South Africa and elsewhere. Consequently, Sage Group has not issued new securities in the international markets to provide for the cash needs of SIGI and its subsidiaries.

Effective January 1, 2003, Sage Life ceased all new sales of variable annuity and variable life insurance products. This action was taken due to the inability of Sage Life and its parents to raise the capital necessary to meet the ongoing needs of Sage Life. Sage Life is currently proceeding towards establishing the facilities necessary to administer an orderly disposition of the in-force business. Sage Life's ratings have been downgraded several times over recent months by the rating agencies. Further, Sage Life has substantially reduced its number of employees in recent months, and further layoffs are planned.

Sage Advisors has, since its inception, been subsidized by Sage Group. Because of the limitations imposed on Sage

Group, as described above, no further capital is available, and as a result, Sage Group no longer subsidizes the expenses of Sage Advisors. Sage Life is not able to assume financial responsibility for Sage Advisors. The advisory fee paid by the Portfolios of Sage Trust to Sage Advisors is not sufficient to cover the expenses incurred by Sage Advisors in managing the Trust. Given the above, Sage Advisors will soon be unable to continue to manage the Trust.

Since Sage Trust's inception, Sage Advisors has voluntarily reimbursed certain operating expenses of each Portfolio of Sage Trust. However, given its financial condition, Sage Advisors will no longer reimburse expenses of Sage Trust effective May 1, 2003.

6. Applicants request the Commission's approval to effect the substitutions of the shares of portfolios of other variable insurance products funds ("Substituting Portfolios") for the shares of the Replaced Portfolios (the "Substitution"). The Substituting Portfolios are series of open-end management investment companies registered under the 1940 Act, the shares of which are registered as securities under the 1933 Act. Applicants represent that the Substituting Portfolios, in general, have similar investment objectives to, and more assets, better performance and lower expense ratios than, the Replaced Portfolios. The Replaced Portfolios and the corresponding Substituting Portfolios are as follows:

| Replaced portfolios | Substituting portfolios |
|-----------------------------|--|
| S&P 500® Equity Index Fund. | AIM V.I. Premier Equity Fund (Series I Shares). ¹ |
| Nasdaq-100 Index® Fund. | Oppenheimer Capital Appreciation Fund/VA. ² |
| All-Cap Growth Fund | Oppenheimer Capital Appreciation Fund/VA |
| Money Market Fund .. | AIM V.I. Money Market Fund (Series I Shares). ³ |

7. For the shares of each Replaced Portfolio held on behalf of the Variable Accounts at the close of business on the date selected for the Substitution, Sage Life will redeem those shares for cash. Simultaneously, Sage Life, on behalf of the Variable Accounts, will place a purchase order for shares of each Substituting Portfolio so that each purchase will be for the exact amount of

the redemption proceeds. Accordingly, at all times monies attributable to Owners then invested in the Replaced Portfolio will remain fully invested, and the transaction will result in no change in the amount of any Owner's Contract value, death benefit or investment in the Variable Accounts.

8. Applicants represent that the full net asset value of the redeemed shares held by the Variable Accounts will be reflected in the Owners' Contract values following the Substitution. The Applicants represent that the Owners will not bear, directly or indirectly, any expenses, including brokerage expenses, for the Substitution so that the full net asset value of redeemed shares of the Replaced Portfolio held by the Variable Accounts will be reflected in the Owners' Contract values following the Substitution.

9. The Sage Trust is fully advised of the terms of the Substitution.

Applicants anticipate that until the Substitution occurs, the Sage Trust will conduct the trading of portfolio securities in accordance with the investment objectives and strategies stated in the Sage Trust's prospectus and in a manner that provides for the anticipated redemptions of shares held by the Variable Account Applicants.

10. Applicants have determined that the Contracts allow the Substitution as described in the application, and that the transactions are permissible in the manner described under applicable insurance laws and under the Contracts. In addition, Applicants represent that, prior to effecting the Substitution, they will comply with any regulatory requirements they believe are necessary to complete the transactions in each jurisdiction where the Contracts are qualified for sale.

11. Applicants represent that affected Owners will not incur any fees or charges, directly or indirectly, as a result of the Substitution, nor will the rights or obligations of Sage Life under the Contracts be altered in any way. Applicants represent that the proposed Substitution will not have any adverse tax consequences to Owners, nor will it cause Contract fees and charges currently being paid by existing Owners to be greater after the proposed Substitution than before the proposed Substitution. The Contracts provide that there are currently no restrictions on the number of transfers that an Owner can make. Currently, Sage Life does not assess a transfer fee. However, it reserves the right to impose a charge of up to \$25 on each transfer in a Contract year in excess of twelve, and to limit, upon notice, the maximum number of transfers that can be made per month or

¹ SEC File Numbers 33-57340 and 811-7452.

² SEC File Numbers 002-93177 and 811-4108.

³ SEC File Numbers 33-57340 and 811-7452.