

# Monthly Investment Review

For May 2004



This monthly investment review is produced by Eagle Star for professional Insurance Intermediaries. It covers the following: **performance of major stock markets, comment on markets, Eagle Star asset allocations, feature on selected stocks, Eagle Star's global outlook and fund performance statistics.**

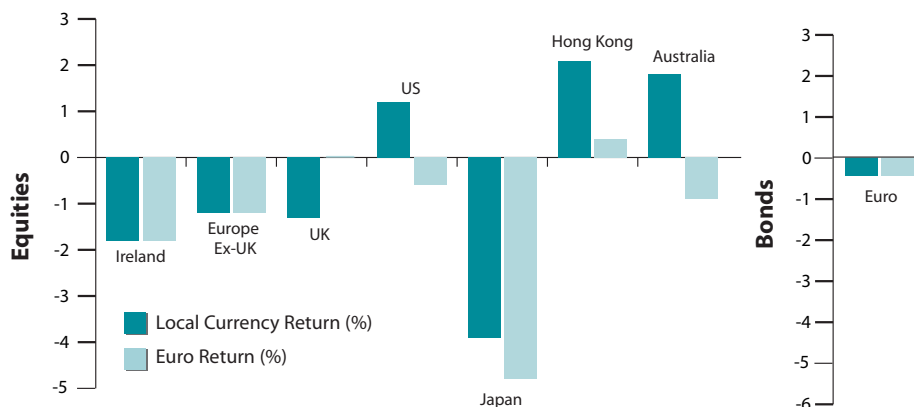
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## Equity and Bond % Returns

This graph shows the performance of the major equity markets over the month of May.

The returns are shown in both local and euro currencies.

The bond index is the Merrill Lynch Over 5 Year Euro Government Bond Index.



## Investment Comment

- World equities (in euro terms) were down just over 1% during May but this hides significant volatility over the period especially in Asia and Japan – both of which fell heavily in the first two weeks only to regain most of their losses.
- Asian markets (including Japan) continued to be hit in early May by concerns over the tightening of monetary and fiscal policy in China in an effort to slow down rampant economic growth. Markets in Japan and Asia rebounded from oversold levels mid-month helped by hopes that there may be a deferral of an interest rate rise in China.
- Stronger economic data along with higher oil prices in the first half of the month caused bond prices to fall back.
- Markets remain focused on interest rate expectations especially in the US. A rise of over 1% is now expected in the Fed Funds rate by year end – the relevant figure at the beginning of May was 0.75%.
- Corporate results for first quarter continued in May with figures again beating expectations in general – however, they had less of an impact on the markets than in the previous month. The main positive results came from UBS, Anglo Irish Bank, Tyco, JC Penney, Hewlett Packard and Reckitt Benckiser. On the negative side, Ahold, the giant Dutch retailer, revealed a sharp decline in first quarter sales while disappointing results were also reported by Dutch insurer Aegon and German construction group Hochtief.
- After a number of months of strength, the US dollar depreciated somewhat on the back of technical factors – ending the period at 1.22 against the euro.

## Eagle Star's Asset Allocation

The funds are neutral to slightly overweight in equities and underweight in bonds.

### Equities

#### Countries & Markets: overweight & underweight positions

During the first half of the period, the fund managers reduced equity weightings as markets began to react negatively to higher oil prices and policy concerns in China. Positions were cut back in Asia and Japan. As the markets regained their composure, equity positions were increased again with the weighting in Europe moved from neutral to overweight. The funds are currently underweight in the US and the Pacific Region.

### Sectors:

#### overweight & underweight positions

The funds remained broadly stable in their sectoral positions in May. A slightly overweight position was maintained in economically sensitive sectors such as general industrials and basic industries – although the latter was cut back somewhat. The other main change was a further increase in non-cyclical consumer goods stocks (especially pharmaceuticals). The funds remain underweight in utilities, financial stocks and telecommunications.

### Bonds

Bond prices fell further during May in response to stronger economic data in both the US and eurozone. As a result, the markets slightly increased their expectations for short-term rates during 2004. It is anticipated that US short rates will start rising modestly, starting in the next few weeks. In the eurozone, the ECB is expected to leave rates unchanged this year but move them up next year. Representative 10 year bonds returned -0.9% over the period. Bond exposures were underweight versus benchmarks at the start of the month and these positions were maintained until month end, when bonds were purchased on a tactical basis and exposures moved close to neutral.

## Spotlight on Stocks

The following stocks are included (at time of going to print) in Eagle Star's funds including the 5★5 Fund.

### Resources and Infrastructure

#### Enterprise Inns

Enterprise Inns is a public house operator with almost 5,500 leased and tenanted pubs located throughout the United Kingdom. Since its floatation in 1995 it has rapidly grown through the acquisition of individual and blocks of pubs. The group has reported a positive trading statement and despite having achieved 25% compounded annual growth since its floatation only trades on a 2004 P/E Ratio of 9.6x. The expected exercise of an option to acquire the balance of the 'Unique Pubs' estate should provide further growth over the next few years. The recent pullback in the share price has provided an attractive entry level.

### Healthcare

#### Johnson & Johnson (JNJ)

Johnson & Johnson (JNJ) is a leading global healthcare company operating in pharmaceuticals (JNJ's largest segment), consumer and medical technology divisions. Pharmaceutical sales continue to be led by Risperdal (an antipsychotic), Procrit (for anaemia), Duragesic (pain management) and Remicade (rheumatoid arthritis). JNJ's consumer products segment makes OTC (over the counter) drugs and products for skin and hair care, baby care, oral care, first aid, and women's health & nutrition. JNJ's medical technology division includes products such as surgical equipment, medical monitoring devices and disposable contact lenses. The stock has historically outperformed when the profits cycle is decelerating in the US. The valuation of the stock is attractive relative to its history.

### Technology & Telecom

#### Samsung Electronics

Samsung Electronics is one of the world's leading electronic goods manufacturers. Its core businesses consist of semiconductor manufacturing, where it is

second only to Intel; mobile handsets, an area in which it supplies mainly high-end models; and TFT-LCD panels for computer monitors and TVs, an area in which Sony recently set up a joint venture with the company. Samsung invests heavily in its businesses to maintain its technological lead and has succeeded in recent years in improving greatly its brand name. The company appears well positioned to deliver strong earnings growth over the next few years and trades at a significant valuation discount to comparable companies.

### Consumer

#### E.ON

E.ON is the largest utility in Europe in terms of market capitalisation. Its core businesses are electricity and gas. The company has focused itself on gas and electricity over the last number of years through a number of large acquisitions and divestments. Despite this, the company still has an under leveraged balance sheet, with enormous cash flow. Management is committed not to overspend on acquisitions and may return some capital going forward. Strong German wholesale electricity prices have fuelled earnings growth. E.ON trades in line with its peers despite superior total return potential for shareholders thanks to its balance sheet and assets.

### Financial

#### Depfa

Depfa is a leading German bank specialising in public sector finance, property finance and property related IT services. The company has decided to split into two different financial institutions: (a) public sector financing and; (b) real estate and IT services. This decision should be approved by shareholders on 15th October. This move should lead to a single valuation of each business model and erode the discount attached to the whole group. The company is experiencing good loan growth and costs are being controlled enabling better profits going forward.

## Global Outlook

- The global economy remains strong. The eurozone has lagged other regions, although recent data has been more encouraging. Chinese policymakers remain focused on reining in growth rates and lowering what they regard as excessive borrowing and investment.
- If oil prices are sustained at very high levels they could be a threat to the global economy going forward.
- The Federal Reserve is very close to moving rates from their current 1% level. It has said that any moves will be carried out in a measured fashion. The ECB is officially in a neutral stance at the moment.
- Bond markets in the US have begun to anticipate rising short rates, and this has also had a negative impact on eurozone bonds. Overall, it remains a difficult environment for bonds.
- Equity markets continue to be buffeted by concerns over the timing and pace of US interest rate rises, as well as high oil prices, despite the strong economic growth and corporate earnings backdrop.

# Investment Performance Report

## Annualised Performance to 1st June 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
<b>Cash</b>						
<b>Eagle Star Secure</b>	<b>0.73%</b>	<b>1.79%</b>	<b>3.10%</b>	<b>3.44%</b>	<b>4.95%</b>	<b>69,001,000</b>
Acorn Life Pension Deposit	0.65%	1.69%	2.61%	3.02%	4.49%	4,400,000
Ark Life Pension Assured 2	0.50%	1.16%	2.04%	2.41%	Not Started	18,924,000
Canada Life Setanta Pension Money	0.54%	1.36%	2.34%	2.66%	3.74%	32,810,000
Friends Cash	0.52%	2.36%	2.54%	2.71%	3.83%	73,063,900
Hibernian L&P Pension Cash	0.43%	1.45%	2.39%	Not Started	Not Started	39,900,000
Irish Life Exempt Cash 1	0.60%	1.55%	2.38%	2.72%	3.90%	300,000
Lifetime/BIAM Pen Security	0.46%	1.14%	2.05%	2.21%	3.59%	9,502,000
New Ireland Pension Cash 2	0.58%	1.41%	2.05%	2.53%	3.69%	37,295,000
Royal Liver Money Fund	0.31%	0.79%	1.80%	Not Started	Not Started	200,000
Standard Cash 1 G	0.44%	1.24%	2.13%	2.49%	3.61%	14,802,000
<b>MoneyMate Sector Average</b>	<b>0.54%</b>	<b>1.53%</b>	<b>2.42%</b>	<b>2.75%</b>	<b>4.00%</b>	
<b>Fixed Interest</b>						
<b>Eagle Star Active Pension</b>	<b>1.88%</b>	<b>-1.09%</b>	<b>7.50%</b>	<b>6.21%</b>	<b>Not Started</b>	<b>37,998,000</b>
<b>Eagle Star Long Bond</b>	<b>1.39%</b>	<b>-1.74%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>8,318,000</b>
Canada Life Setanta Pen Fixed Interest	0.95%	-0.36%	5.87%	4.69%	7.84%	8,480,000
Friends Fixed Interest	0.73%	0.50%	6.96%	4.58%	8.98%	159,226,900
Hibernian L&P Pension (Hib) H-R Gilt	2.41%	2.49%	8.58%	5.54%	9.43%	11,900,000
Irish Life Exempt Fixed Interest 2	1.36%	0.16%	6.65%	4.69%	8.61%	4,200,000
New Ireland Pension Gilt Edge 2	0.98%	-0.36%	6.50%	4.85%	8.60%	510,314,000
Royal Liver Fixed Interest	0.41%	-1.29%	6.00%	Not Started	Not Started	200,000
Standard Fixed Interest 1 G	1.15%	-0.41%	5.01%	3.40%	7.75%	6,572,000
<b>MoneyMate Sector Average</b>	<b>1.03%</b>	<b>-0.30%</b>	<b>6.80%</b>	<b>4.81%</b>	<b>8.56%</b>	
<b>International Equity</b>						
<b>Eagle Star International Dynamic</b>	<b>0.70%</b>	<b>14.84%</b>	<b>-8.94%</b>	<b>-0.24%</b>	<b>Not Started</b>	<b>32,302,000</b>
Ark Life Pension Global	0.77%	14.63%	Not Started	Not Started	Not Started	2,874,000
Canada Life Passive Equity 2	3.96%	16.94%	Not Started	Not Started	Not Started	100,000
Friends International Equity 2	3.27%	18.82%	-11.11%	-4.59%	6.40%	618,585,000
Hibernian L&P Pension (Hib) H-R International	3.63%	19.10%	-10.97%	-3.62%	6.03%	14,100,000
Irish Life Fidelity Managed Intl	3.50%	17.24%	-16.28%	Not Started	Not Started	Not Available
New Ireland Pension International 2	3.55%	17.23%	-9.92%	-1.01%	7.19%	1,477,021,000
Royal Liver International Equity	2.95%	22.11%	-11.70%	Not Started	Not Started	200,000
Standard International Equity 1 G	3.32%	19.59%	-10.51%	-2.27%	6.91%	9,657,000
<b>MoneyMate Sector Average</b>	<b>3.16%</b>	<b>17.66%</b>	<b>-10.86%</b>	<b>-3.17%</b>	<b>5.99%</b>	
<b>Managed Aggressive</b>						
<b>Eagle Star Dynamic</b>	<b>3.05%</b>	<b>16.58%</b>	<b>-5.49%</b>	<b>-1.47%</b>	<b>9.26%</b>	<b>314,482,000</b>
Acorn Life Pension Managed Growth	3.14%	22.42%	-8.40%	-0.60%	8.54%	140,500,000
Hib Life & Pen NU Focussed Managed E	3.26%	16.93%	-4.65%	1.52%	Not Started	14,000,000
Lifetime/BIAM Pen Opportunity	2.74%	14.48%	-4.72%	1.73%	9.13%	7,325,000
New Ireland 2016/2040 Series 3	2.73%	15.24%	-4.16%	1.46%	9.82%	443,388,000
Royal Liver Managed Fund	3.72%	15.17%	-5.91%	Not Started	Not Started	500,000
<b>MoneyMate Sector Average</b>	<b>2.77%</b>	<b>15.19%</b>	<b>-5.46%</b>	<b>0.50%</b>	<b>9.32%</b>	
<b>Managed Balanced</b>						
<b>Eagle Star Balanced</b>	<b>2.93%</b>	<b>13.17%</b>	<b>-3.07%</b>	<b>0.29%</b>	<b>9.94%</b>	<b>474,466,000</b>
<b>Eagle Star Performance</b>	<b>2.74%</b>	<b>14.26%</b>	<b>-4.29%</b>	<b>-0.58%</b>	<b>9.48%</b>	<b>360,120,000</b>
Acorn Life Pension Managed	2.83%	16.81%	-5.00%	0.69%	9.12%	105,900,000
Ark Life Pension Managed 2	0.92%	10.68%	-8.65%	-3.08%	Not Started	288,902,000
Canada Life Setanta Pension Managed	3.29%	12.85%	-3.94%	0.13%	8.40%	228,430,000
Friends Managed	3.02%	15.73%	-4.24%	-0.29%	8.77%	715,475,400
Hibernian L&P Pension (Hib) H-R Managed	4.06%	15.64%	-3.66%	0.73%	9.07%	160,900,000
Irish Life Exempt Active Managed 2	3.96%	16.38%	-3.86%	1.12%	8.32%	510,600,000
Lifetime/BIAM Pen Growth	2.47%	12.64%	-2.73%	2.60%	9.56%	461,774,000
New Ireland Pension Managed 2	2.57%	12.96%	-1.99%	2.66%	10.23%	1,714,327,000
Standard Managed 1 G	3.69%	14.91%	-5.09%	-0.93%	7.73%	129,899,000
<b>MoneyMate Sector Average</b>	<b>2.83%</b>	<b>13.89%</b>	<b>-4.21%</b>	<b>0.55%</b>	<b>8.74%</b>	

# Investment Performance Report

## Annualised Performance to 1st June 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
<b>Euro Equity</b>						
<b>Eagle Star Eurozone G</b>	<b>1.84%</b>	<b>23.92%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>1,629,000</b>
Ark Life Eurozone 2 G	-1.74%	16.36%	-13.68%	Not Started	Not Started	76,895,000
Hibernian L&P Euro Equity G	1.44%	22.14%	-11.21%	Not Started	Not Started	800,000
New Ireland Euroland Equity 9 G	2.86%	21.47%	-13.07%	Not Started	Not Started	5,239,000
<b>MoneyMate Sector Average<sup>1</sup></b>	<b>0.53%</b>	<b>19.45%</b>	<b>-12.65%</b>	<b>Not Started</b>	<b>N/A</b>	
<b>European Equities<sup>2</sup></b>						
<b>Eagle Star 5★5 Europe</b>	<b>6.20%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>1,959,000</b>
BOI Life - Unit Funds European Ex UK 2 G	3.86%	21.37%	-11.59%	Not Started	Not Started	4,089,000
Canada Life/Setanta European Equity G	2.16%	20.37%	-10.50%	Not Started	Not Started	7,560,000
Friends First European Equity	1.62%	20.06%	Not Started	Not Started	Not Started	Not Available
Hibernian L&P European Equity G	2.51%	22.57%	-10.54%	Not Started	Not Started	2,300,000
Irish Life Europascope 2 G	0.73%	20.60%	-13.73%	Not Started	Not Started	16,960,000
New Ireland European Equity 8 G	4.17%	22.58%	-10.52%	Not Started	Not Started	5,239,000
Royal Liver European Equity G	5.15%	26.97%	-10.93%	Not Started	Not Started	3,800,000
Standard Life MW European Equity 5 G	1.30%	18.56%	-9.87%	Not Started	Not Started	12,044,000
<b>MoneyMate Sector Average<sup>1</sup></b>	<b>2.61%</b>	<b>20.94%</b>	<b>-11.75%</b>	<b>-3.42%</b>	<b>N/A</b>	
<b>Far East Equity<sup>2</sup></b>						
<b>Eagle Star 5★5 Asia Pacific</b>	<b>3.00%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>3,778,000</b>
BOI Life - Unit Funds Far East Equity 2 G	2.35%	23.32%	-9.10%	Not Started	Not Started	60,804,000
Hibernian L&P Pacific Basin Equity G	2.81%	29.65%	-2.70%	Not Started	Not Started	500,000
Irish Life Indexed Pacific Basin 1 G	4.83%	30.67%	-3.84%	Not Started	Not Started	350,000
New Ireland Pacific Basin 8 G	1.50%	28.13%	-3.51%	Not Started	Not Started	97,155,000
Standard Life MW Pacific Basin Equity 5 G	1.73%	28.60%	-5.03%	Not Started	Not Started	2,237,000
<b>MoneyMate Sector Average<sup>1</sup></b>	<b>3.53%</b>	<b>30.55%</b>	<b>-5.01%</b>	<b>N/A</b>	<b>N/A</b>	
<b>American Equity<sup>2</sup></b>						
<b>Eagle Star 5★5 Americas</b>	<b>-0.20%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>Not Started</b>	<b>827,000</b>
BOI Life - Unit Funds North American 3 G	2.57%	13.03%	-8.21%	Not Started	Not Started	310,174,000
Hibernian L&P US Equity G	5.22%	20.03%	-13.16%	Not Started	Not Started	1,000,000
Irish Life Fidelity American Growth 1 G	-0.84%	11.64%	-13.38%	Not Started	Not Started	650,000
New Ireland North American 8	3.17%	14.82%	-6.90%	Not Started	Not Started	380,653,000
Standard Life MW North American Equity 5 G	3.63%	14.95%	-13.52%	Not Started	Not Started	7,383,000
<b>MoneyMate Sector Average<sup>1</sup></b>	<b>3.02%</b>	<b>13.64%</b>	<b>-12.41%</b>	<b>0.73%</b>	<b>N/A</b>	
<b>Concentrated Funds<sup>3</sup></b>						
<b>Eagle Star 5★5</b>	<b>4.67%</b>	<b>16.68%</b>	<b>0.41%</b>	<b>Not Started</b>	<b>Not Started</b>	<b>97,643,000</b>
New Ireland Smart Stocks 15	2.30%	11.15%	-11.36%	Not Started	Not Started	13,315,000
New Ireland Smart Stocks 35	2.89%	12.14%	-11.25%	Not Started	Not Started	11,253,000
Canada Life /Setanta Focus 15	5.89%	16.55%	-16.25%	Not Started	Not Started	37,680,000
Hib Life & Pens Target 20	0.38%	14.39%	-17.44%	Not Started	Not Started	27,700,000
<b>Average of Selected Funds</b>	<b>3.23%</b>	<b>14.50%</b>	<b>-11.17%</b>	<b>N/A</b>	<b>N/A</b>	
<b>Consensus Funds<sup>4</sup></b>						
Irish Life Exempt Consensus	4.36%	15.57%	-4.32%	0.42%	Not Started	619,100,000
Friends Individual Consensus	4.39%	16.33%	-4.18%	0.33%	Not Started	14,694,900
Canada Life Consensus Index 1	3.52%	15.36%	-5.41%	-0.15%	Not Started	28,350,000
Hib Life & Pen NU Pen Grp Consensus	4.33%	16.28%	-4.20%	0.48%	Not Started	90,100,000
BIAM (Grp) EUT Consensus Fund	7.56%	18.55%	-3.73%	Not Started	Not Started	Not Available
<b>Average of Selected Funds</b>	<b>4.83%</b>	<b>16.42%</b>	<b>-4.37%</b>	<b>0.27%</b>	<b>N/A</b>	

Source: MoneyMate as on 08/06/04.

Returns are based on offer/offer performance of the funds and do not represent the returns achieved by individual policies linked to the funds. Unit prices in the funds are not guaranteed and may fall as well as rise. Benefits may be affected by fluctuations in exchange rates between the currency of the underlying investment and the policy currency. Past performance may not be a reliable guide to future returns which are dependent on future investment conditions. The MoneyMate sector averages shown are the average of all funds in each of the MoneyMate sectors in the individual pensions category except where otherwise stated. The funds highlighted have been chosen to show one of each competitors' open funds. Where more than one fund is applicable the one spanning most time periods has been selected, where there are equal time periods the best performing fund has been selected.

<sup>1</sup> The average shown is the average of the relevant MoneyMate Irish Domestic Funds (Gross) sector. This sector has been chosen as it contains the most comprehensive selection of competitor funds.

<sup>2</sup> This MoneyMate regional sector has been chosen as a base comparison for the Eagle Star 5★5 regional fund as there is no regional concentrated fund category.

<sup>3</sup> This is not a sector on MoneyMate but has been created to compare the performance of the 5★5 fund to that of its closest competitors in the Irish Domestic Funds (Gross) sector.

<sup>4</sup> This is not a sector on MoneyMate but includes all the funds identifiable as consensus funds on MoneyMate available to group & individual pension policies.