

Monthly Investment Review

For September 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.**

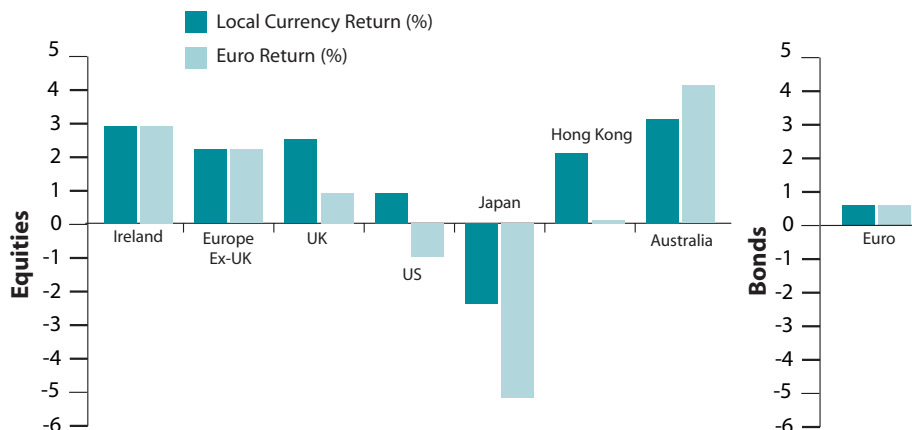
If you require further information, contact your Eagle Star Broker Consultant or your Sales Support Team.

Equity and Bond % Returns

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

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 little changed in September. Markets moved ahead strongly in the first three weeks supported by general optimism concerning economic growth, earnings prospects and a good run in bond markets over the last few months. However, a resurgence in the oil price from \$43 a barrel back up to \$50 took the gloss off returns for the month. Underperforming regions were Japan (which was hurt by weaker economic data e.g. retail sales and GDP) and the US (which was hit hardest by the rise in oil prices). Most of the other regions rose by between 2% to 3%. As regards sectors, energy and technology stocks outperformed, the former helped by rising oil prices, the latter supported primarily by positive corporate news from market heavyweights Nokia and Oracle.
- Bonds rose by 0.6% in September – the fourth month in a row of positive returns. Prices have continued to rise due to optimism that inflation – despite the oil price rise – will remain benign and that short term interest rate increases will be muted. Bonds are now close to peak levels, last seen back in March.
- Corporate news was again light, ahead of the third quarter earnings season which begins in early October. In the US, software company Oracle announced better than expected earnings with strong database licence revenue growth being the highlight. On the negative side, pharmaceuticals company Merck fell 26% following its withdrawal of a key painkiller drug Vioxx, while Colgate issued a profit warning due to increased marketing spend. The major news in Europe was the upbeat trading statement by Nokia – the world's largest mobile phone manufacturer. This follows a number of profit warnings in previous months. Other highlights included a profit warning by Dutch/UK food to deodorants company Unilever and the virtual wrapping up of Santander's takeover of Abbey National. In Japan, Mitsubishi Tokyo Financial moved closer to acquiring rival UFJ with an injection of ¥700bn to shore up the latter's bad debts; while Australian miner BHP Billiton signed another major iron-ore contract with a number of Chinese steel makers.
- The US dollar weakened over the period – from 1.22 against the euro to 1.24 – due to a slight reduction in economic growth and interest rate expectations in the US. The euro/dollar rate is now at the top of its seven month trading range (1.18 – 1.24).

Eagle Star's Asset Allocation

The funds are overweight in equities and underweight in bonds.

Equities

Countries & Markets: overweight & underweight positions

The fund managers maintained the equity weighting at an overweight position during the period. Positions were slightly increased in Asia and the UK – due to more attractive valuations and their sensitivity to continued demand from China. Japan was reduced from overweight to neutral on the back of weaker economic data while the US was further reduced on relative valuation grounds. The funds continue to have a significant overweight position in Europe.

Sectors: overweight & underweight positions

The funds continue to have a bias towards economically sensitive sectors with overweight positions maintained in basic industries and general industrials (although less so). Resource stocks, especially Norwegian and UK oil companies, were increased over the period while the funds continue to be overweight in mining stocks. The overweight position in financials was further increased in September, mainly with purchases of European banks. Some profits were taken in investment banks towards the end of the month.

Bonds

Bonds registered further gains in both the US and the Eurozone despite a further 0.25% rate increase in the US (bringing the rate to 1.75%) and slightly more negative comments from the ECB with regard to the Eurozone interest rate outlook. Bond investors are certainly not as convinced about the positive growth outlook as policymakers. Witness the fact that bonds have performed well during a period of surging oil prices. These have been viewed as a growth "tax" and their traditional impact on inflation has been largely ignored. Many bond investors appear to have been wrongly positioned and in some cases have been forced back into the bond markets, lending support to an already strong market. Bond positions were tactically overweight during the month but have recently been lowered back to neutral/marginally underweight.

Spotlight on Stocks

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

Consumer

Nissan Motor

Nissan Motor, Japan's second biggest auto manufacturer after Toyota, has successfully restructured its operations in recent years under its French CEO, Carlos Ghosn. After closing inefficient factories, reducing its workforce and sharing operations with Renault, the company is enjoying its best financial results in its history. The upcoming launch of several new models should ensure that the company maintains its earnings growth. The share price trades at a significant discount to its peers.

Finance

Goldman Sachs

Goldman Sachs is one of the world's largest investment banks. It is a consistent top-tier global player in key high-margin lines of business such as equity underwriting and mergers & acquisitions (M&A). It is benefiting from the recent increase in initial public offerings and M&A activity. The company is exceptionally creative and aggressive and is one of two dominant Prime Brokers to the fast-growing hedge fund industry. The valuation is attractive with the stock trading below its historical price-to-book multiple.

Healthcare

Novo Nordisk

Novo Nordisk is a Danish pharmaceutical company. It is one of the world's leading producers of insulin and other diabetes related products. Novo Nordisk also operates in other areas such as hormone-replacement products and drugs for haemophilia and trauma (Novoseven). The company should see significant margin expansion due to the shift in the mix to insulin analogues. Lower research and development costs should positively impact the company's operating profit in the future. Novo Nordisk currently trades at a premium to the sector which is warranted given its superior growth and margin expansion, and lower patent risks.

Technology & Telecom

Xerox

Xerox has a core business focus on providing imaging equipment (including colour and black & white printers, high-end production, multifunction devices and digital copiers), software, services, and solutions targeted at the production/management of documents for a broad range of end markets. Xerox should continue to benefit from the ongoing turnaround program and cost-cutting measures, as well as from renewed growth over time driven by demand for high-end colour products, digital multifunction & office colour printers, and solutions services. The valuation is attractive with the stock trading on a discount to the market and its sector on forward earnings estimates.

Resources and Infrastructure

Vinci

Vinci is a French construction and related activities company. The company is a European leader in concessions (airports, car parks and motorways), construction (especially road building) and energy services. Vinci earn half of their profits from the stable concessions business, which is showing new growth prospects on the car park and motorway side. The French construction business is improving on the back of more rational industry player behaviour and rising demand. The management are interested in co-operating closer with ASF (the State motorway company) in which Vinci have a significant stake, potentially providing synergies for both sides. The company trades at a discount to its sum of parts valuation despite improving fundamentals and earnings prospects for the group.

Global Outlook

- Activity levels in the global economy remain high, although leading indicators foresee a slowing in the pace of global expansion. The high oil price is a "growth tax" for consuming nations but also boosts inflation, posing an undoubted dilemma for policymakers in the major economies.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a "measured pace". Employment growth is seen as the key test of the US economy's strength. This has been modest in past months and may temper the Fed somewhat. In the Eurozone the ECB remains more upbeat on growth prospects than the market, but is still in "wait and see" mode regarding interest rates.
- Bond markets have taken some comfort from the stance of the Fed and the ECB, well-behaved inflation data and a sense that global growth momentum has peaked.
- Strong corporate profits have endorsed last year's equity market performance. This year markets have been more subdued although the support of more favourable valuations in the non-US markets is seen in these markets' ongoing out-performance of the US. Markets have recovered well from their mid-August trough, out-performing bonds substantially since then.

Investment Performance Report

Annualised Performance to 1st October 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
Cash						
Eagle Star Secure	1.29%	1.72%	2.74%	3.41%	4.85%	72,824,000
Acorn Life Pension Deposit	1.15%	1.55%	2.30%	2.94%	4.33%	4,500,000
Ark Life Pension Assured 2	0.89%	1.15%	1.83%	2.38%	Not Started	19,662,000
Canada Life Setanta Pension Money	0.97%	1.31%	2.07%	2.63%	3.66%	33,360,000
Friends Cash	1.23%	2.64%	2.36%	2.74%	3.73%	37,820,000
Hibernian L&P Pension Cash	1.43%	1.57%	2.24%	Not Started	Not Started	44,700,000
Irish Life Exempt Cash 1	1.08%	1.47%	2.11%	2.71%	3.78%	400,000
Lifetime/BIAM Pen Security	0.81%	1.11%	1.81%	2.22%	3.53%	9,502,000
New Ireland Pension Cash 2	1.00%	1.34%	1.89%	2.49%	3.56%	40,757,000
Royal Liver Money Fund	0.56%	0.77%	1.46%	Not Started	Not Started	3,109,751
Standard Cash 1 G	0.85%	1.20%	1.87%	2.47%	3.48%	18,673,000
MoneyMate Sector Average	1.06%	1.50%	2.18%	2.75%	3.92%	
Fixed Interest						
Eagle Star Active Pension	6.35%	5.74%	7.44%	8.12%	Not Started	38,742,000
Eagle Star Long Bond Fund	7.37%	6.73%	Not Started	Not Started	Not Started	8,768,000
Canada Life Setanta Pen Fixed Interest	5.19%	4.26%	6.01%	6.46%	8.13%	8,830,000
Friends Fixed Interest	4.54%	5.09%	6.74%	6.39%	9.51%	143,060,000
Hibernian L&P Pension (Hib) H-R Gilt	6.51%	6.44%	8.68%	7.57%	9.98%	11,400,000
Irish Life Exempt Fixed Interest 2	5.19%	4.41%	6.76%	6.53%	9.13%	4,100,000
New Ireland Pension Gilt Edge 2	4.86%	4.28%	6.90%	6.72%	9.14%	568,756,000
Royal Liver Fixed Interest	4.10%	3.71%	6.24%	Not Started	Not Started	6,194,105
Standard Fixed Interest 1 G	5.15%	4.70%	5.17%	5.49%	8.27%	6,718,000
MoneyMate Sector Average	5.11%	4.74%	6.95%	6.84%	9.12%	
International Equity						
Eagle Star International Dynamic	1.26%	7.69%	-2.39%	-0.36%	Not Started	32,451,000
Ark Life Pension Global	3.07%	10.27%	-5.57%	Not Started	Not Started	3,032,000
Canada Life Passive Equity 2	3.57%	7.84%	Not Started	Not Started	Not Started	1,610,000
Friends International Equity 2	2.09%	9.50%	-7.10%	-5.30%	6.20%	631,880,000
Hibernian L&P Pension (Hib) H-R International	3.32%	11.85%	-3.97%	-3.94%	6.03%	13,800,000
Irish Life Fidelity Managed Intl	0.30%	4.27%	-7.92%	Not Started	Not Started	Not Available
New Ireland Pension International 2	2.13%	9.25%	-3.37%	-1.39%	7.37%	1,562,510,000
Royal Liver International Equity	2.91%	6.39%	-2.06%	Not Started	Not Started	5,992,237
Standard International Equity 1 G	3.51%	8.94%	-2.55%	-2.80%	7.05%	14,029,000
MoneyMate Sector Average	2.91%	8.96%	-3.79%	-3.58%	6.12%	
Managed Aggressive						
Eagle Star Dynamic	5.99%	13.85%	1.77%	-0.59%	9.38%	333,163,000
Acorn Life Pension Managed Growth	5.69%	13.28%	0.41%	-0.90%	8.74%	146,900,000
Hib Life & Pen NU Focussed Managed E	6.11%	14.03%	2.55%	1.38%	Not Started	14,000,000
Lifetime/BIAM Pen Opportunity	4.01%	10.66%	2.35%	2.29%	9.30%	7,325,000
New Ireland 2016/2040 Series 3	4.52%	11.40%	2.53%	2.09%	10.03%	515,249,000
Royal Liver Managed Fund	7.01%	12.05%	3.00%	Not Started	Not Started	16,068,141
MoneyMate Sector Average	5.07%	12.23%	1.65%	0.82%	9.51%	
Managed Balanced						
Eagle Star Balanced	6.06%	12.20%	2.79%	1.33%	10.09%	503,938,000
Eagle Star Performance	5.78%	12.45%	2.31%	0.40%	9.64%	383,287,000
Acorn Life Pension Managed	5.16%	10.59%	1.39%	0.95%	9.18%	110,800,000
Ark Life Pension Managed 2	3.70%	8.82%	-2.20%	-2.30%	Not Started	298,472,000
Canada Life Setanta Pension Managed	5.11%	10.84%	2.16%	0.81%	8.47%	240,580,000
Friends Managed	4.75%	11.71%	1.79%	0.18%	8.96%	753,031,000
Hibernian L&P Pension (Hib) H-R Managed	6.60%	13.47%	2.36%	1.42%	9.29%	161,200,000
Irish Life Exempt Active Managed 2	6.64%	13.13%	2.54%	2.03%	8.58%	533,200,000
Lifetime/BIAM Pen Growth	4.48%	10.17%	3.65%	3.38%	9.78%	461,774,000
New Ireland Pension Managed 2	4.67%	10.47%	3.49%	3.37%	10.51%	1,810,813,000
Standard Managed 1 G	6.04%	11.34%	1.34%	0.16%	7.86%	129,899,000
MoneyMate Sector Average	5.12%	10.95%	2.01%	1.41%	8.96%	

Figures highlighted in orange, indicate where Eagle Star has outperformed the average.

Investment Performance Report

Annualised Performance to 1st October 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
Euro Equity						
Eagle Star Eurozone G	6.77%	20.73%	Not Started	Not Started	Not Started	1,796,000
Ark Life Eurozone 2 G	-0.42%	12.33%	-5.09%	Not Started	Not Started	79,562,000
Hibernian L&P Euro Equity G	3.37%	17.98%	-2.10%	Not Started	Not Started	800,000
New Ireland Euroland Equity 9 G	3.25%	16.57%	-6.21%	Not Started	Not Started	5,344,000
MoneyMate Sector Average¹	1.47%	15.35%	-4.85%	N/A	N/A	
European Equities²						
Eagle Star 5★5 Europe	13.60%	Not started	Not Started	Not Started	Not Started	3,206,000
BOI Life - Unit Funds European Ex UK 2 G	3.11%	15.30%	-5.06%	Not Started	Not Started	4,089,000
Canada Life /Setanta European Equity G	5.04%	16.20%	-2.17%	Not Started	Not Started	7,930,000
Friends First European Equity	0.83%	13.25%	Not Started	Not Started	Not Started	207,839,000
Hibernian L&P European Equity G	2.75%	15.75%	0.12%	Not Started	Not Started	2,400,000
Irish Life Europascope 2 G	0.31%	15.46%	-5.13%	Not Started	Not Started	16,960,000
New Ireland European Equity 8 G	3.81%	16.44%	-4.15%	Not Started	Not Started	5,344,000
Royal Liver European Equity G	7.50%	16.69%	2.25%	Not Started	Not Started	3,783,064
Standard Life MW European Equity 5 G	3.31%	14.27%	-0.88%	Not Started	Not Started	12,044,000
MoneyMate Sector Average¹	4.08%	14.94%	-1.30%	-3.60%	N/A	
Far East Equity²						
Eagle Star 5★5 Asia Pacific	11.70%	Not started	Not Started	Not Started	Not Started	4,741,000
BOI Life - Unit Funds Far East Equity 2 G	-0.78%	-0.68%	-0.80%	Not Started	Not Started	60,804,000
Hibernian L&P Pacific Basin Equity G	7.44%	13.93%	8.45%	Not Started	Not Started	500,000
Irish Life Indexed Pacific Basin 1 G	8.73%	11.74%	7.66%	Not Started	Not Started	350,000
New Ireland Pacific Basin 8 G	3.70%	6.38%	4.84%	Not Started	Not Started	90,898,000
Standard Life MW Pacific Basin Equity 5 G	4.05%	7.05%	5.79%	Not Started	Not Started	2,237,000
MoneyMate Sector Average¹	5.11%	6.69%	4.31%	N/A	N/A	
American Equity²						
Eagle Star 5★5 Americas	1.50%	Not started	Not Started	Not Started	Not Started	929,000
BOI Life - Unit Funds North American 3 G	1.05%	6.11%	-3.01%	Not Started	Not Started	310,174,000
Hibernian L&P US Equity G	2.70%	9.38%	-6.34%	Not Started	Not Started	1,100,000
Irish Life Fidelity American Growth 1 G	-5.41%	-1.63%	-2.22%	Not Started	Not Started	650,000
New Ireland North American 8	2.12%	7.72%	-1.32%	Not Started	Not Started	371,460,000
Standard Life MW North American Equity 5 G	1.76%	3.09%	-5.92%	Not Started	Not Started	7,383,000
MoneyMate Sector Average¹	1.85%	5.05%	-5.16%	-0.29%	N/A	
Concentrated Funds³						
Eagle Star 5★5	8.08%	14.32%	7.88%	Not Started	Not Started	109,052,000
New Ireland Smart Stocks 15	-1.47%	2.39%	-7.35%	Not Started	Not Started	13,281,000
New Ireland Smart Stocks 35	0.86%	5.49%	-6.23%	Not Started	Not Started	11,605,000
Canada Life /Setanta Focus 15	4.03%	8.58%	-8.41%	Not Started	Not Started	37,460,000
Hib Life & Pens Target 20	-0.03%	7.72%	-9.77%	Not Started	Not Started	28,400,000
Average of Selected Funds	2.29%	7.70%	-4.78%	N/A	N/A	
Consensus Funds⁴						
Irish Life Exempt Consensus	6.79%	12.56%	1.90%	1.12%	Not Started	695,000,000
Friends Individual Consensus	6.84%	11.53%	2.05%	1.15%	Not Started	16,500,000
Canada Life Consensus Index 1	6.53%	12.77%	1.46%	0.68%	Not Started	32,160,000
Hib Life & Pen NU Pen Grp Consensus	6.41%	12.60%	1.99%	1.09%	Not Started	90,100,000
BIAM (Grp) EUT Consensus Fund	10.44%	16.03%	2.56%	1.64%	Not Started	Not Available
Average of Selected Funds	7.40%	13.10%	1.99%	1.13%	N/A	

Figures highlighted in orange, indicate where Eagle Star has outperformed the average.

Source: MoneyMate as at 01/10/04.

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.

¹ 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.

² 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.

³ 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.

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