

Monthly Investment review

For December 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.**

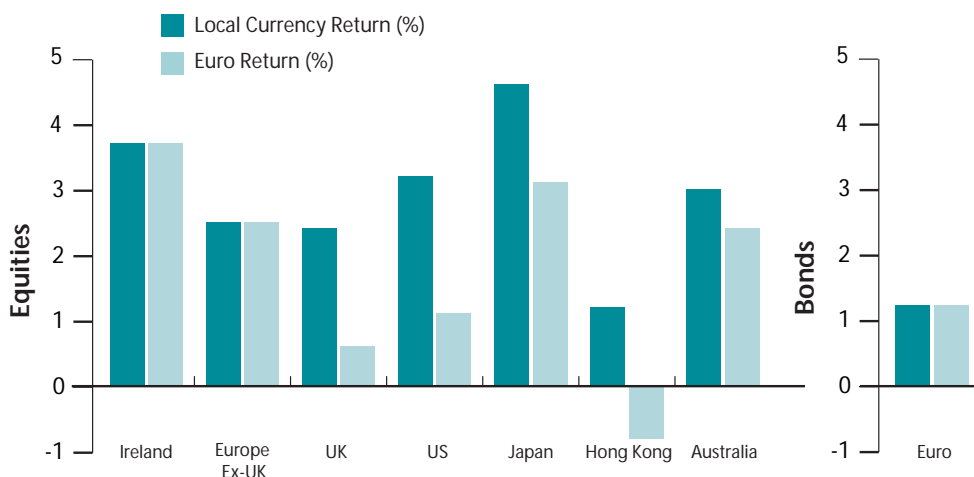
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Equity and Bond % Returns

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

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

- Equity markets finished the year on a strong note with world equities (in euro terms) up over 1% in December. In local currency terms, markets were strong in all regions, led by Japan, the US and parts of Europe. Once again, however, many of the gains were watered down by the strength of the euro against all major currencies. Equities continued November's rally, helped by stronger economic data, falling oil prices (down US\$7 in December to US\$42 a barrel) as well as seasonal factors. Sectorwise, financials and pharmaceuticals performed best while energy stocks were adversely affected by the oil price collapse.
- Eurozone bonds continued their long upward price movement, rising by over 1% in December. Both eurozone and US bonds rose sharply in the first half of the month, supported by weaker US payroll numbers, but lost much of their gains as the economic data swung around with stronger US consumer confidence and housing data.
- Corporate news was reasonably quiet ahead of the fourth quarter reporting season in January. Notable features in the US were the bid by Symantec for Veritas - with the latter's share price up 30% - and an increase in earnings guidance from Monsanto. In Europe, Stora Enso, the Finnish paper manufacturer, fell after it warned that the weaker US dollar and higher input costs were hurting its profit margins, while Swiss engineering company ABB fell heavily on asbestos concerns. The London Stock Exchange rejected a £1.35 bn bid for it by rival Deutsche Boerse while Danske Bank emerged as the surprise buyer of National Australia Bank's Irish operations. In Asia, Lenovo, China's largest PC maker, bought IBM's PC business.
- The US dollar fell to new lows against the euro. The euro began the month at 1.33 against the dollar, ending at 1.36. The euro was strong against all major currencies including sterling, the Swiss franc and the yen, as well as all currencies tied or partially tied to the US dollar. Recent strength partly relates to concerns over Asian central banks reallocating reserves towards the euro.

Eagle Star's Asset Allocation

The funds are overweight in equities and bonds.

Equities

Countries & Markets: overweight & underweight positions

The fund managers maintained an overweight position in equities during the period. The only move in December was a reduction in the overweight position in Europe and a corresponding reduction in the underweight position in US equities. Neutral positions were maintained in Ireland, Japan and the UK, while the funds continue to be overweight in the Pacific Basin region where markets have been unaffected by the tsunami disaster.

Sectors: overweight & underweight positions

The funds continue to have a slight bias towards economically sensitive sectors such as basic industries and resources. A significant overweight position was maintained in financials, especially in European banks and insurance companies. There were no significant sectoral moves during the period.

Bonds

Eurozone bond prices rose further in December, completing a year of very strong returns. The Fed hike in December was fully expected by investors and had little impact on either the US or eurozone bond markets, which performed in tandem during the month, in contrast to the large divergence in November. For the last month of the year, prices were driven as much by investors closing out negative bond positions as by the economic data. The euro advanced by a further 2%, ending the year 8% higher against a weaker dollar. This, however, had little impact on relative performance of eurozone bonds against their US peers. The Over 5 Year Government Bond index in the eurozone returned 1.2% on the month or 10.7% for the year. The bond position was added to during the period.

Spotlight on Stocks

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

Finance

Hypo Real Estate Holding

Hypo Real Estate Holding is the spun-off commercial real estate activities of HypoVereinsbank. The company runs three different units: Hypo International (focus on growth in international property financing), Wurtth Hypo (a German mortgage bank) and Hypo Real Estate Bank (strong restructuring and downsizing of German commercial activities). Management are very focused on reducing their exposure to German property and diversifying abroad into higher yielding projects. To date the strategy has worked in that the company has achieved better than expected prices for its German disposals, while investing the proceeds wisely. Hypo Real Estate still trades at a large discount to its book value despite an improving return on its capital.

benefiting from strong growth in capital spending in the US and globally and this is evidenced by the recent positive earnings surprises and positive earnings revisions. The company is very disciplined on capital deployment and consistently buys back stock. With respect to valuation, the stock trades at a discount to its sector.

Healthcare

GlaxoSmithKline

GlaxoSmithKline is one of the world's largest pharmaceutical companies. In addition to its pharmaceutical activities, the company also operates in the consumer health arena. Within pharmaceuticals, the company is the world leader in respiratory medicine, anti-infectives and CNS (central nervous system) treatments. GSK's recent operational performance has been poor due to a number of patent expiries, resulting in both weaker sales and margin pressure. However, the company has a strong late-stage pipeline, which should enable improving performance going forward. GSK trades at a discount to its peers.

Resources and Infrastructure

Fortum

Fortum is the second largest generator and supplier of power and the leading provider of district heating in Finland and Sweden. The electricity market is still very fragmented in the Nordic region and Fortum will be active in the inevitable consolidation process. Early next year the company plans to float its oil assets, the company is making strong profits here thanks to a favourable oil refining environment. Fortum is also well placed to benefit from Russian energy consolidation due to its existing investments. The Finnish government still owns over 60% of the share capital.

Consumer

Carnival

Carnival is the dominant player in the global cruise industry. The industry is now effectively a duopoly since the takeover of P&O Princess by Carnival in 2003, the other player being Royal Caribbean. This has led to greater pricing power for Carnival. The industry is being impacted favourably by demographics as the baby boomers enter their 50s and 60s, Carnival's main customer segment. Thus, Carnival's volume growth should exhibit a strong increase over the next decade. Carnival's return on capital is high and improving as it pays very little corporate tax and its capital requirements are declining. Carnival's valuation is attractive; trading on 18 times forecasted EPS for 2005, a small premium to the US market despite having a forecast EPS growth rate twice the market's level for 2005.

Technology & Telecoms

IBM

IBM is the world's largest IT company with an 11% share of total worldwide IT spending. The company is a significant player in virtually every major segment of the IT industry, including services, servers, storage, semiconductors and software. IBM is the largest worldwide supplier of IT services and servers and the second largest supplier of software. The company is

Global Outlook

- Activity in the global economy remains reasonably strong, although the forward indicators suggest some slowdown over coming months. The effects of last year's one-third rise in oil prices seem limited to date, but policymakers will remain vigilant during 2005.
- The Federal Reserve raised rates from the emergency 1% level in 2004, leaving them at 2.25% at period end. For 2005 it has promised further 'measured pace' increases, which have largely been anticipated by interest rate markets.
- In the eurozone, the ECB has kept rates flat at 2% for a prolonged spell now, notwithstanding currency strength and subdued to weaker economic data. Investors and the ECB still anticipate an upward bias to rates during 2005 but this will be subject to improvements in the economic numbers. Eurozone bonds performed strongly in 2004, but the general investor consensus is much more cautious this year. Nonetheless, continued low rates and well-behaved inflation could continue to underpin bonds in 2005.
- Surveys of equity investors suggest that they have already moderated their expectations for growth in 2005, although they remain broadly positive on the overall outlook for equity markets. A strong fourth quarter means that total returns for 2004 were quite healthy. Corporate profit growth globally for 2005 is expected to be in the order of 14% and this is likely to underpin equity markets.

Investment Performance Report

Annualised Performance to 4th January 2005

	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Annualised 15 Years	Fund Size (€)
Cash						
Eagle Star Secure	1.78%	2.65%	3.38%	4.78%	6.49%	79,391,000
Acorn Life Pension Deposit	1.55%	2.16%	2.87%	4.19%	6.18%	4,400,000
Ark Life Pension Assured 2	1.27%	1.70%	2.38%	Not Started	Not Started	19,662,000
Canada Life Setanta Pension Money	1.30%	1.85%	2.57%	3.57%	5.44%	38,870,000
Friends Cash	1.54%	2.18%	2.71%	3.63%	5.58%	37,819,000
Hibernian L&P Pension Cash	1.81%	2.08%	Not Started	Not Started	Not Started	44,700,000
Irish Life Exempt Cash 1	1.45%	1.98%	2.65%	3.69%	5.48%	400,000
Lifetime/BIAM Pen Security	1.05%	1.64%	2.18%	3.44%	5.23%	9,502,000
New Ireland Pension Cash 2	1.31%	1.84%	2.44%	3.47%	5.55%	40,921,000
Royal Liver Money Fund	0.78%	1.29%	Not Started	Not Started	Not Started	3,684,943
Standard Cash 1 G	1.17%	1.73%	2.42%	3.41%	5.37%	18,673,000
MoneyMate Sector Average	1.37%	2.02%	2.70%	3.82%	5.70%	
Fixed Interest						
Eagle Star Active Pension	10.99%	8.27%	8.82%	Not Started	Not Started	45,490,000
Eagle Star Long Bond	14.40%	Not Started	Not Started	Not Started	Not Started	9,324,000
Canada Life Setanta Pen Fixed Interest	8.93%	6.79%	7.03%	8.01%	9.01%	9,910,000
Friends Fixed Interest	8.09%	7.56%	7.19%	9.59%	9.53%	143,057,000
Hibernian L&P Pension (Hib) H-R Gilt	10.21%	9.40%	8.36%	10.12%	9.21%	11,400,000
Irish Life Exempt Fixed Interest 2	9.13%	7.74%	7.27%	9.15%	9.03%	4,200,000
New Ireland Pension Gilt Edge 2	7.58%	7.39%	7.24%	9.17%	8.86%	609,502,000
Royal Liver Fixed Interest	7.62%	6.79%	Not Started	Not Started	Not Started	7,977,828
Standard Fixed Interest 1 G	9.02%	6.03%	6.37%	8.29%	8.61%	6,718,000
MoneyMate Sector Average	9.02%	7.40%	7.45%	9.13%	9.08%	
International Equity						
Eagle Star International Dynamic	5.74%	-4.57%	-4.19%	Not Started	Not Started	33,848,000
Ark Life Pension Global	9.25%	-6.91%	Not Started	Not Started	Not Started	3,032,000
Canada Life Passive Equity 1	4.65%	Not Started	Not Started	Not Started	Not Started	1,830,000
Friends International	4.64%	-6.52%	-9.42%	6.08%	4.82%	631,883,000
Hibernian L&P Pension (Hib) H-R International	5.83%	-6.67%	-7.84%	6.72%	7.74%	13,800,000
Irish Life Fidelity Managed Intl	0.76%	-11.14%	Not Started	Not Started	Not Started	Not Available
New Ireland Pension International 2	4.90%	-5.96%	-4.52%	7.92%	Not Started	1,645,076,000
Royal Liver International Equity	4.47%	-6.77%	Not Started	Not Started	Not Started	6,895,057
Standard International Equity 1 G	5.35%	-5.60%	-7.30%	7.36%	6.61%	14,029,000
MoneyMate Sector Average	5.53%	-7.04%	-7.06%	6.67%	6.58%	
Managed Aggressive						
Eagle Star Dynamic	12.25%	0.19%	-2.43%	9.96%	13.55%	370,141,000
Acorn Life Pension Managed Growth	10.03%	-1.79%	-3.90%	9.45%	7.99%	151,300,000
Hib Life & Pen NU Focussed Managed D	9.18%	1.37%	0.18%	Not Started	Not Started	12,100,000
Lifetime/BIAM Pen Opportunity	8.60%	0.15%	0.86%	9.70%	7.29%	7,325,000
New Ireland 2016/2040 Series 3	9.40%	0.35%	0.70%	10.51%	Not Started	575,736,000
Royal Liver Managed Fund	12.88%	0.11%	Not Started	Not Started	Not Started	21,129,040
MoneyMate Sector Average	9.56%	-0.30%	-1.16%	10.04%	10.14%	
Managed Balanced						
Eagle Star Balanced	11.48%	1.49%	-0.59%	10.60%	12.85%	548,053,000
Eagle Star Performance	12.05%	1.03%	-1.49%	10.23%	12.57%	421,258,000
Acorn Life Pension Managed	8.79%	0.01%	-1.24%	9.67%	9.27%	114,000,000
Ark Life Pension Managed 2	9.25%	-2.95%	-2.79%	Not Started	Not Started	298,472,000
Canada Life Setanta Pension Managed	9.23%	0.31%	-0.66%	8.83%	7.83%	242,870,000
Friends Managed	9.00%	0.47%	-1.65%	9.41%	7.85%	751,323,000
Hibernian L&P Pension (Hib) H-R Managed	10.46%	0.60%	-0.47%	9.73%	8.28%	161,200,000
Irish Life Exempt Active Managed 2	12.14%	1.19%	0.93%	9.04%	8.11%	536,600,000
Lifetime/BIAM Pen Growth	9.56%	1.81%	2.22%	10.17%	9.48%	461,774,000
New Ireland Pension Managed 2	9.30%	1.79%	2.08%	10.99%	9.28%	1,904,587,000
Standard Managed 1 G	10.31%	-0.15%	-2.14%	8.22%	7.50%	129,899,000
MoneyMate Sector Average	9.27%	0.18%	-0.28%	9.40%	8.93%	

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

Investment Performance Report

Annualised Performance to 4th January 2005

	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Annualised 15 Years	Fund Size (€)
Euro Equity						
Eagle Star Eurozone G	14.30%	Not Started	Not Started	Not Started	Not Started	2,525,000
Ark Life Eurozone 2 G	6.48%	-7.45%	Not Started	Not Started	Not Started	79,562,000
Hibernian L&P Euro Equity G	6.76%	-5.15%	Not Started	Not Started	Not Started	800,000
New Ireland Euroland Equity 8 G	10.43%	-5.98%	Not Started	Not Started	Not Started	5,732,000
MoneyMate Sector Average¹	6.72%	-7.09%	N/A	N/A	N/A	
European Equities²						
Eagle Star 5★5 Europe	24.65%	Not Started	Not Started	Not Started	Not Started	7,522,000
BOI Life - Unit Funds European Ex UK 2 G	8.13%	-6.34%	Not Started	Not Started	Not Started	4,089,000
Canada Life/Setanta European Equity G	11.76%	-3.37%	Not Started	Not Started	Not Started	8,600,000
Friends First European Equity	6.67%	Not Started	Not Started	Not Started	Not Started	204,288,000
Hibernian L&P European Equity G	8.54%	-4.73%	Not Started	Not Started	Not Started	2,400,000
Irish Life Indexed Europe 1 G	7.03%	-6.06%	Not Started	Not Started	Not Started	950,000
New Ireland European Equity 8 G	9.21%	-5.44%	Not Started	Not Started	Not Started	334,795,000
Royal Liver European Equity G	16.07%	-0.77%	Not Started	Not Started	Not Started	4,428,863
Standard Life MW European Equity 5 G	7.94%	-3.74%	Not Started	Not Started	Not Started	12,044,000
MoneyMate Sector Average¹	10.21%	-4.31%	-6.88%	N/A	N/A	
Far East Equity²						
Eagle Star 5★5 Asia Pacific	16.65%	Not Started	Not Started	Not Started	Not Started	6,617,000
BOI Life - Unit Funds Far East Equity 2 G	1.94%	-4.51%	Not Started	Not Started	Not Started	60,804,000
Hibernian L&P Pacific Basin Equity G	8.80%	1.56%	Not Started	Not Started	Not Started	500,000
Irish Life Indexed Pacific Basin 1 G	13.07%	0.85%	Not Started	Not Started	Not Started	350,000
New Ireland Pacific Basin 8 G	6.69%	0.54%	Not Started	Not Started	Not Started	71,093,000
Standard Life MW Pacific Basin Equity 5 G	4.15%	-2.19%	Not Started	Not Started	Not Started	2,237,000
MoneyMate Sector Average¹	5.74%	-1.96%	N/A	N/A	N/A	
American Equity²						
Eagle Star 5★5 Americas	8.29%	Not Started	Not Started	Not Started	Not Started	977,000
BOI Life - Unit Funds North American 3 G	0.96%	-6.81%	Not Started	Not Started	Not Started	310,174,000
Hibernian L&P US Equity G	2.14%	-10.42%	Not Started	Not Started	Not Started	1,100,000
Irish Life Fidelity American Growth 1 G	-3.49%	-11.04%	Not Started	Not Started	Not Started	650,000
New Ireland North American 8	2.48%	-5.26%	Not Started	Not Started	Not Started	356,242,000
Standard Life MW North American Equity 5 G	0.47%	-10.34%	Not Started	Not Started	Not Started	7,383,000
MoneyMate Sector Average¹	2.55%	-9.28%	-5.46%	N/A	N/A	
Concentrated Funds³						
Eagle Star 5★5	13.25%	3.63%	Not Started	Not Started	Not Started	126,233,000
New Ireland Smart Stocks 15	-1.05%	-10.26%	Not Started	Not Started	Not Started	12,754,000
New Ireland Smart Stocks 35	0.86%	-8.94%	Not Started	Not Started	Not Started	11,254,000
Canada Life/Setanta Focus 15	6.51%	-11.75%	Not Started	Not Started	Not Started	35,060,000
Hib Life & Pens Target 20	5.85%	-11.95%	Not Started	Not Started	Not Started	28,400,000
Average of Selected Funds	5.08%	-7.85%	N/A	N/A	N/A	
Consensus Funds⁴						
Irish Life Exempt Consensus	11.53%	0.39%	-0.29%	Not Started	Not Started	752,600,000
Friends Individual Consensus	11.08%	0.92%	-0.23%	Not Started	Not Started	16,504,000
Canada Life Consensus Index 1	10.62%	-0.36%	-0.81%	Not Started	Not Started	49,330,000
Hib Life & Pen NU Pen Grp Consensus	10.41%	0.35%	-0.44%	Not Started	Not Started	90,100,000
BIAM (Grp) EUT Consensus Fund	15.75%	1.37%	0.30%	Not Started	Not Started	Not Available
Average of Selected Funds	11.88%	0.53%	-0.30%	N/A	N/A	

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

Source: MoneyMate as on 04/01/2005.

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.