

Monthly Investment review

For August 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.**

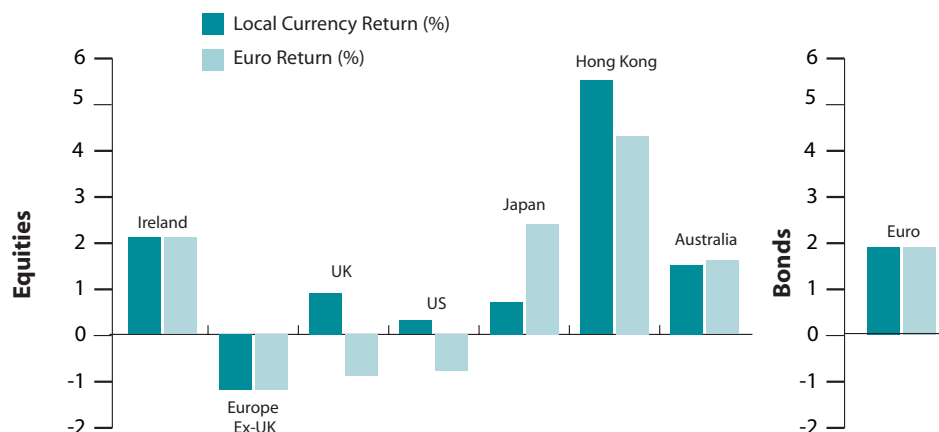
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Equity and Bond % Returns

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

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) fell marginally in August although the period had two distinct halves - with markets, in general, falling heavily in the first two weeks before rallying strongly in the latter half. This volatility was closely correlated with the significant movement in the oil price, which rose to almost \$50 a barrel mid-month before falling back to \$42 at month-end. Technology stocks were the worst performing sector. The best performing region was Asia (ex-Japan) with the Hong Kong market rising by 5%. Hong Kong recorded its first positive CPI inflation figure in 68 months, which in turn boosted the property sector given the low levels of interest rates.
- Bonds rose by 1.9% in August - the third month in a row of positive returns. Bonds were helped initially by the weakness in equities as well as higher oil prices; moving higher again at the end of the month on the back of some soft US economic data. European bonds underperformed their US counterparts over the period.
- Corporate news was thin on the ground during August. In the US, the home improvement speciality retailer Home Depot had better than expected earnings results while Hewlett Packard issued a profit warning citing mis-execution in its enterprise systems business - one of its three main divisions. The internet search engine provider Google had a successful IPO. In Europe, Barclays rose sharply on bid speculation while Swiss food producer Nestle had poor results hampered by weaker than expected sales and higher raw material costs. BSkyB, the UK pay-television operator, had a major profit warning with the stock price down over 20% on the month - the company plans to significantly increase investment and advertising spending in order to boost future growth. In Australia, mining company BHP Billiton reported strong earnings with Chinese demand remaining the major driver of growth.
- The US dollar also had a volatile month - ending at 1.22 against the euro. Initial weakness to 1.24 was caused by weak US payroll data and the huge increase in the June US trade deficit to \$55.8bn. before the dollar strengthened on the back of falling oil prices and a stronger equity market.

Eagle Star's Asset Allocation

The funds are overweight in equities and neutral in bonds.

Equities

Countries & Markets: overweight & underweight positions

The fund managers maintained the equity weighting at an overweight position during the period. Positions were further increased in Asia - given the more attractive valuations and the region's sensitivity to global economic growth - and reduced in the US. The funds are currently significantly overweight in Europe and Asia and underweight the US, Ireland and the UK. The European position continues to be based on an attractive valuation picture and the fact that the Eurozone is not at an advanced stage along the economic cycle.

Sectors: overweight & underweight positions

The funds remained broadly stable in their sectoral positions in August. Overweight positions were maintained, albeit at a slightly lower level, in economically sensitive sectors such as general industrials and basic industries. The main change during the month was an increase in financial stocks, given the further reduction in short-rate expectations, with purchases of European (mainly Nordic) and Hong Kong banks.

Bonds

Bond markets had another strong month in August, following July's impressive gains. Investors' attention was focused on the current 'soft spot' in the US economy as data continued to show a slowdown from the frenetic pace of growth earlier in the year. The monthly non-farm payroll report, released in early August depicted a more subdued labour market while inflation data continued to show a more benign pricing environment. The Fed, as expected, raised rates by 0.25% for the second time, while continuing to forecast stronger growth going forward. The ECB meanwhile, held steady, content that recent oil price increases would not unduly impact inflation expectations. Over the month, the over five year euro government index returned 1.9%. Bond positions were maintained at broadly neutral levels 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 Fund.

Resources and Infrastructure

CRH

CRH is a major international producer and distributor of building materials, with a diversified business profile in product and geographical terms. It operates in four main regions; the Americas, Ireland, continental Europe and the UK. CRH is a proven leader in its sector with a quality management team focused on creating long term shareholder value. This is illustrated by a 23% CAGR in EPS over the last ten years. This growth has been achieved through strong organic growth and value enhancing acquisitions. Evidence of recovery in construction remains patchy but improving economic data and the Group's record of execution on its development strategy leave material upside potential.

Healthcare

Sanofi-Synthelabo

Sanofi-Synthelabo is a French pharmaceutical company. The company seems to have secured a merger with Aventis, its French pharmaceutical peer. The combined entity would be one of the largest pharmaceutical companies in the world. Both companies have major drugs facing patent challenges, but equally the combined entity would have a significant sales force and a positive development pipeline. In addition, there would be significant cost reduction and restructuring benefits to harvest. The company trades at a valuation discount to its peers.

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 & cost-cutting measures, as well as from renewed growth over time, driven by demand for high-end colour products, digital multifunction and 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.

Consumer

Sumitomo Corp

Sumitomo Corp is a Japanese based, consumer oriented trading company. It has interests in such areas as steel, automobiles and cable TV. The company has been steadily improving its asset efficiency and should enjoy good earnings growth because of the growing Japanese economy. Sumitomo Corp appears undervalued relative to comparable companies.

Financial

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), Wurttemberg 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.

Global Outlook

- Activity levels in the global economy remain high, although there has been some softness in recent US and Japanese data. The eurozone has been a laggard but is now back to its trend growth rate. The much-watched Chinese economy is slowing from a period of torrid growth. A high and sustained oil price should lower growth but increase inflation. The recent decline in the oil price is a positive.
- The Fed has commenced its well-flagged tightening cycle, beginning with two 0.25% increases to 1.5%. Rates will be raised further at a 'measured pace' according to Fed statements. Price pressures will be closely watched by both eurozone and US central banks in coming months, although the ECB's official stance is that it has no bias as to the next change in rates.
- Bond markets have taken some comfort from the Fed's 'measured pace' rhetoric. In addition, global growth indicators are now anticipating a loss of momentum in the pace of economic expansion, albeit from high levels.
- Strong profits and earnings' revisions have validated last year's strong price gains; this year's overall performance for global equities has been more muted. Underlying profit strength and lower valuations than last year offer support to equity markets; however, recent earnings' guidance from some US companies has been a bit disappointing. Terrorism worries and the rising price of oil have sapped the demand for equities over the past six weeks, but markets' behaviour has been better in the past two weeks or so helped by recent weakness in the oil price.

Investment Performance Report

Annualised Performance to 1st September 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
Cash						
Eagle Star Secure	1.16%	1.76%	2.80%	3.41%	4.87%	69,937,000
Acorn Life Pension Deposit	1.02%	1.56%	2.36%	2.96%	4.36%	4,500,000
Ark Life Pension Assured 2	0.77%	1.12%	1.82%	2.39%	Not Started	18,924,000
Canada Life Setanta Pension Money	0.87%	1.34%	2.12%	2.64%	3.72%	33,360,000
Friends Cash	1.00%	2.53%	2.36%	2.72%	3.75%	37,360,000
Hibernian L&P Pension Cash	1.28%	1.65%	2.32%	Not Started	Not Started	44,700,000
Irish Life Exempt Cash 1	0.96%	1.48%	2.18%	2.69%	3.81%	300,000
Lifetime/BIAM Pen Security	0.73%	1.14%	1.89%	2.23%	3.57%	9,502,000
New Ireland Pension Cash 2	0.91%	1.38%	1.91%	2.49%	3.59%	40,525,000
Royal Liver Money Fund	0.50%	0.78%	1.50%	Not Started	Not Started	3,109,751
Standard Cash 1 G	0.75%	1.22%	1.92%	2.48%	3.52%	18,673,000
MoneyMate Sector Average	0.94%	1.51%	2.24%	2.75%	3.94%	
Fixed Interest						
Eagle Star Active Pension	5.71%	6.23%	7.22%	7.82%	Not Started	38,055,000
Eagle Star Long Bond Fund	6.47%	6.58%	Not Started	Not Started	Not Started	8,692,000
Canada Life Setanta Pen Fixed Interest	4.66%	5.39%	5.96%	6.26%	8.35%	8,830,000
Friends Fixed Interest	3.94%	6.32%	6.64%	6.13%	9.22%	145,790,000
Hibernian L&P Pension (Hib) H-R Gilt	5.69%	7.38%	8.28%	7.24%	9.69%	11,400,000
Irish Life Exempt Fixed Interest 2	4.56%	5.53%	6.61%	6.26%	8.85%	4,000,000
New Ireland Pension Gilt Edge 2	4.18%	5.05%	6.74%	6.36%	8.87%	535,430,000
Royal Liver Fixed Interest	2.93%	3.72%	5.62%	Not Started	Not Started	6,194,105
Standard Fixed Interest 1 G	4.25%	5.14%	4.76%	5.09%	8.06%	6,718,000
MoneyMate Sector Average	4.37%	5.36%	6.72%	6.50%	8.90%	
International Equity						
Eagle Star International Dynamic	1.22%	3.10%	-4.95%	-0.99%	Not Started	32,463,000
Ark Life Pension Global	1.81%	3.07%	Not Started	Not Started	Not Started	2,874,000
Canada Life Passive Equity 2	3.30%	1.82%	Not Started	Not Started	Not Started	1,610,000
Friends International Equity 2	1.93%	3.57%	-9.33%	-6.13%	5.94%	637,530,000
Hibernian L&P Pension (Hib) H-R International	3.43%	6.58%	-6.64%	-4.33%	5.44%	13,800,000
Irish Life Fidelity Managed Intl	-1.22%	-1.82%	-12.68%	Not Started	Not Started	Not Available
New Ireland Pension International 2	2.66%	5.37%	-5.89%	-1.61%	6.83%	1,541,851,000
Royal Liver International Equity	3.40%	4.36%	-6.48%	Not Started	Not Started	5,992,237
Standard International Equity 1 G	2.75%	3.17%	-6.00%	-3.52%	6.34%	14,029,000
MoneyMate Sector Average	2.67%	4.51%	-6.91%	-4.09%	5.59%	
Managed Aggressive						
Eagle Star Dynamic	4.17%	8.31%	-1.97%	-1.45%	8.64%	325,719,000
Acorn Life Pension Managed Growth	4.11%	7.49%	-3.85%	-1.69%	8.18%	146,900,000
Hib Life & Pen NU Focussed Managed E	5.03%	9.12%	-0.90%	0.53%	Not Started	14,000,000
Lifetime/BIAM Pen Opportunity	3.87%	7.25%	-2.66%	1.96%	9.04%	7,325,000
New Ireland 2016/2040 Series 3	4.25%	7.91%	-0.61%	1.62%	9.60%	499,713,000
Royal Liver Managed Fund	5.75%	9.69%	-1.84%	Not Started	Not Started	16,068,141
MoneyMate Sector Average	4.14%	7.72%	-1.87%	0.13%	9.02%	
Managed Balanced						
Eagle Star Balanced	4.43%	7.62%	-0.25%	0.55%	9.46%	492,730,000
Eagle Star Performance	4.03%	7.54%	-1.14%	-0.45%	8.98%	373,615,000
Acorn Life Pension Managed	3.96%	6.58%	-1.60%	0.25%	8.76%	110,800,000
Ark Life Pension Managed 2	2.55%	3.85%	-5.13%	-2.99%	Not Started	288,902,000
Canada Life Setanta Pension Managed	4.51%	8.33%	-1.07%	0.34%	8.38%	240,580,000
Friends Managed	3.99%	7.80%	-1.10%	-0.34%	8.45%	715,475,400
Hibernian L&P Pension (Hib) H-R Managed	6.21%	9.90%	-0.36%	0.94%	8.78%	161,200,000
Irish Life Exempt Active Managed 2	5.44%	9.07%	-0.81%	1.23%	8.02%	530,000,000
Lifetime/BIAM Pen Growth	4.15%	7.43%	-0.88%	2.95%	9.54%	461,774,000
New Ireland Pension Managed 2	4.31%	7.69%	0.84%	2.96%	10.02%	1,778,868,000
Standard Managed 1 G	4.65%	6.80%	-1.83%	-0.70%	7.30%	129,899,000
MoneyMate Sector Average	4.25%	7.78%	-1.15%	0.69%	8.54%	

Investment Performance Report

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	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Fund Size (€)
Euro Equity						
Eagle Star Eurozone G	2.87%	11.58%	Not Started	Not Started	Not Started	1,724,000
Ark Life Eurozone 2 G	-2.03%	3.20%	-10.01%	Not Started	Not Started	76,895,000
Hibernian L&P Euro Equity G	1.56%	9.03%	-7.09%	Not Started	Not Started	800,000
New Ireland Euroland Equity 9 G	1.30%	7.44%	-10.36%	Not Started	Not Started	5,383,000
MoneyMate Sector Average¹	-0.57%	5.85%	-9.52%	N/A	N/A	
European Equities²						
Eagle Star 5★5 Europe	9.60%	Not Started	Not Started	Not Started	Not Started	2,689,000
BOI Life - Unit Funds European Ex UK 2 G	1.49%	7.65%	-9.07%	Not Started	Not Started	4,089,000
Canada Life /Setanta European Equity G	2.76%	9.60%	-6.65%	Not Started	Not Started	7,930,000
Friends First European Equity	-0.95%	4.46%	Not Started	Not Started	Not Started	207,840,000
Hibernian L&P European Equity G	0.96%	8.20%	-9.29%	Not Started	Not Started	2,400,000
Irish Life Europascope 2 G	-1.68%	6.00%	-9.72%	Not Started	Not Started	16,960,000
New Ireland European Equity 8 G	2.03%	8.77%	-7.86%	Not Started	Not Started	5,383,000
Royal Liver European Equity G	5.71%	11.16%	-5.96%	Not Started	Not Started	3,783,064
Standard Life MW European Equity 5 G	0.71%	5.32%	-5.61%	Not Started	Not Started	12,044,000
MoneyMate Sector Average¹	1.88%	7.30%	-6.90%	-4.50%	N/A	
Far East Equity²						
Eagle Star 5★5 Asia Pacific	8.00%	Not Started	Not Started	Not Started	Not Started	4,600,000
BOI Life - Unit Funds Far East Equity 2 G	1.86%	-4.32%	-3.59%	Not Started	Not Started	60,804,000
Hibernian L&P Pacific Basin Equity G	4.85%	5.04%	2.58%	Not Started	Not Started	500,000
Irish Life Indexed Pacific Basin 1 G	6.96%	5.11%	1.45%	Not Started	Not Started	350,000
New Ireland Pacific Basin 8 G	4.41%	2.63%	1.62%	Not Started	Not Started	87,876,000
Standard Life MW Pacific Basin Equity 5 G	3.06%	0.32%	0.10%	Not Started	Not Started	2,237,000
MoneyMate Sector Average¹	4.91%	1.59%	-0.38%	N/A	N/A	
American Equity²						
Eagle Star 5★5 Americas	1.70%	Not Started	Not Started	Not Started	Not Started	917,000
BOI Life - Unit Funds North American 3 G	3.15%	4.54%	-4.45%	Not Started	Not Started	310,174,000
Hibernian L&P US Equity G	5.62%	5.49%	-8.01%	Not Started	Not Started	1,100,000
Irish Life Fidelity American Growth 1 G	-6.73%	-9.03%	-9.84%	Not Started	Not Started	650,000
New Ireland North American 8	4.14%	6.11%	-2.67%	Not Started	Not Started	367,807,000
Standard Life MW North American Equity 5 G	2.58%	-1.69%	-8.41%	Not Started	Not Started	7,383,000
MoneyMate Sector Average¹	2.57%	0.59%	-8.03%	0.60%	N/A	
Concentrated Funds³						
Eagle Star 5★5	6.43%	6.32%	4.24%	Not Started	Not Started	105,358,000
New Ireland Smart Stocks 15	2.09%	2.31%	-7.55%	Not Started	Not Started	13,209,000
New Ireland Smart Stocks 35	3.00%	2.89%	-7.42%	Not Started	Not Started	11,433,000
Canada Life /Setanta Focus 15	3.72%	3.40%	-11.87%	Not Started	Not Started	37,460,000
Hib Life & Pens Target 20	-0.25%	1.80%	-13.87%	Not Started	Not Started	28,400,000
Average of Selected Funds	3.00%	3.34%	-7.29%	N/A	N/A	
Consensus Funds⁴						
Irish Life Exempt Consensus	5.74%	8.68%	-1.23%	0.44%	Not Started	680,900,000
Friends Individual Consensus	5.72%	9.20%	-0.98%	0.30%	Not Started	16,050,000
Canada Life Consensus Index 1	5.24%	8.67%	-1.87%	0.01%	Not Started	32,160,000
Hib Life & Pen NU Pen Grp Consensus	5.42%	8.82%	-1.18%	0.36%	Not Started	90,100,000
BIAM (Grp) EUT Consensus Fund	9.22%	12.11%	-0.45%	1.00%	Not Started	Not Available
Average of Selected Funds	6.27%	9.50%	-1.14%	0.42%	N/A	

Source: MoneyMate as at 08/09/04.

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.