

Monthly Investment review

For October 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.**

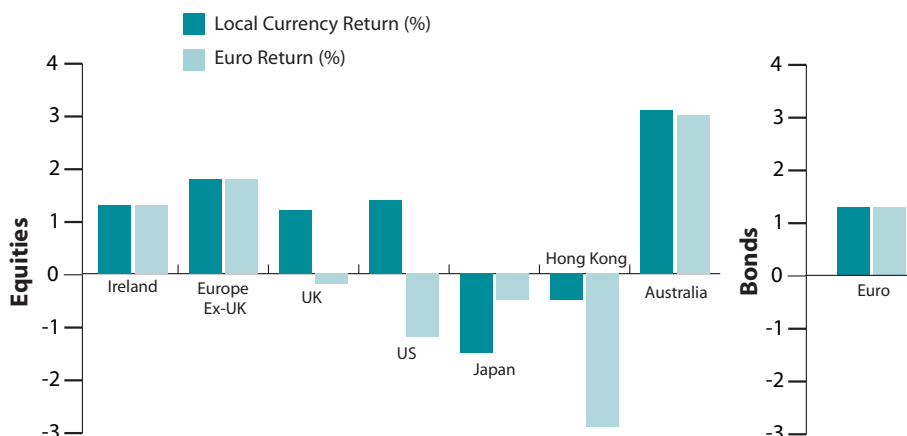
If you require further information, contact your Eagle Star Broker Consultant or your Sales Support Team.

Equity and Bond % Returns

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

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 unchanged in October, the third straight month of flat returns. Markets continued to be held in equilibrium by concerns over rising short-term interest rates and high commodity prices (with the oil price up to \$52 a barrel) on the one hand and robust corporate earnings growth and relatively attractive valuations on the other. In local currency terms a number of markets gave positive returns over the month, notably Australia, Europe and the US Nasdaq Index. Sectorwise, an unusual combination of technology stocks and utilities were the best performers.
- Bond markets rose by 1.3% in October, the fifth month in a row of positive returns, with European bonds slightly outperforming their US counterparts. European bond prices are now at peak levels last seen in March 2004; driven by low inflationary pressures, some softening of US economic growth and the oil price rise being seen as a 'growth tax'.
- Corporate news was brisk with the third quarter earnings season in full swing. Of the 392 companies in the US S&P 500 Index which have reported results so far, 64% have come in above expectations, 16% have matched and 20% have come in below expectations. Major news came from Apple Computers (stock price up 36% in October) with the announcement of strong iPod sales, General Motors (down 11%) which guided down earnings expectations for 2004 on the back of losses in Europe and Marsh & McLennan which fell 40% on the back of investigations by the New York State Attorney General. In Europe, Alcatel gained over 20%, mainly on the back of a large contract from SBC Communications, while Nokia and France Telecom also gained on strong results. Elan reported results in line with expectations and announced that it had reached an agreement to settle the US SEC investigation while Prudential, the UK's second largest insurer, announced a Stg£1bn rights issue to help fund expansion and increase capital reserves.
- The US dollar had a significant fall in the latter half of the month, moving from 1.24 against the euro to 1.28, breaking its seven month trading range (1.18 – 1.24) and moving back to a level last seen in February 2004 – the weakest level of the dollar since the inception of the euro. Reasons for the decline include recent softness in the US economy, the ever expanding US trade deficit and uncertainty over the presidential election. The story remains one of dollar weakness rather than euro strength.

Eagle Star's Asset Allocation

The funds are overweight in equities and neutral in bonds.

Equities

Countries & Markets: overweight & underweight positions

The fund managers continued to maintain an overweight position in equities during the period. The major move during October was the reduction of the Asian position from overweight to neutral and a further increase in European and UK weightings. Profits were taken in Asia towards the end of the month for tactical reasons following strong runs in Australia, Hong Kong and Singapore. The funds continue to have a significant overweight position in European equities and an underweight position in the more expensive US equity market.

Sectors: overweight & underweight positions

The funds continue to have a slight bias towards economically sensitive sectors, such as basic industries and general industrials, but less so than in previous months. The resource sector was cut back to more neutral levels with profits being taken in some European (mainly Norwegian) oil stocks and Australian mining companies. Financials remain at an overweight position while the other major move saw utilities increased from slightly underweight to overweight with the purchase of Finnish and Italian electricity providers. Utilities are currently attractive given their significant dividend yields and good earnings growth, as well as their 'bond proxy' status.

Bonds

US and eurozone bond markets performed strongly during October, although the US market was strongly negative in euro terms because of the weakness of the dollar over the period. The tone was set by rising oil prices and another sub-par US employment report, both factors raising some doubts about the pace of economic growth going forward. In the eurozone, the ECB changed the tone of its rhetoric again – this time becoming less upbeat on growth prospects compared to its prior bullish outlook. Investors concluded that the ECB would hold rates lower for longer, pushing bond prices higher. This plus the stronger euro – the flipside of dollar weakness – allowed eurozone bonds to outperform equivalent US bonds. The over five year eurozone government bond index gained 1.3%.

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

Amadeus Global Travel Distribution

Amadeus Global Travel Distribution operates a travel reservation system. The company's system is used by travel agents throughout the world to book airline seats, hotels and rental cars. Amadeus has been expanding into e-commerce and provides software and services for websites. The company is the leading company in its industry, which has high barriers to entry. It also has a flexible cost base and is positioned in growth markets. All of these factors enable Amadeus to maintain its margins. Amadeus is majority owned by Air France, Lufthansa and Iberia. Private equity firms interested in acquiring their stakes have approached the aforementioned owners. The attraction for such a deal is the company's balance sheet, which is very inefficient and over capitalised. The stock is also attractively valued, trading at a discount to its global peers.

Finance

Danske Bank

Danske Bank is the largest financial institution in Denmark. The company has leading positions in banking and life assurance within its home market thanks to the merger with RealDanmark in 2000. Norway and Sweden are important retail banking markets for the group. Danske Bank is growing its asset base through retail banking and mortgage lending while running off its corporate lending book. The bank is focused on cost control and regularly buys back its own stock. It trades at a valuation discount to its Scandinavian banking peers.

Healthcare

Novartis

Novartis is one of the world's largest pharmaceutical companies and is based in Switzerland. The company has broad therapeutic franchises in a number of areas such as hypertension, oncology, cardiovascular diseases, fungal infections and skin conditions. Novartis has a strong

product pipeline and minimal patent risk over the next few years. The company also produces generic drugs and is a major player in animal nutrition, baby food and clinical nutrition products. Novartis has a very strong balance sheet and buys back its own shares annually. The company trades at a small premium to its peers.

Technology & Telecom

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, personal computers and software. IBM is the largest worldwide supplier of IT services and servers and the second largest supplier of software. The company is benefiting from strong growth in capital spending 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.

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 is apparent and improving economic data and the group's record of execution on its development strategy leave material upside potential.

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. Although oil has fallen 10% from the recent peak, it remains at levels that are negative for the global economy.
- The Fed has raised rates from 1% to 1.75% this year and has promised more increases at a 'measured pace'. Employment growth has been weaker than previous expansions, leading the Fed to be cautious. However, the latest jobs data has been more robust, leading to greater expectations of rate hikes both in November and December. The ECB's 'wait and see' stance will be bolstered by the eurozone's continued sluggishness and the strength of the euro versus the dollar.
- Equity gains this year have been more modest as profits momentum seems to have peaked. In addition, the surge in oil prices has been a strong negative. Last week's firmer US jobs report, plus further falls in oil prices, should continue to see equities outperform bonds. Year-end factors and the decisive outcome to the US election could also make investors more positive about equities over coming weeks.
- 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. Lower eurozone growth prospects and potential for further dollar weakness act as support for eurozone bonds versus their US equivalents.

Investment Performance Report

Annualised Performance to 1st November 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Annualised 15 Years	Fund Size (€)
Cash							
Eagle Star Secure	1.41%	1.72%	2.66%	3.39%	4.82%	6.60%	76,058,000
Acorn Life Pension Deposit	1.30%	1.55%	2.26%	2.92%	4.29%	6.30%	4,400,000
Ark Life Pension Assured 2	0.97%	1.12%	1.77%	2.36%	Not Started	Not Started	19,662,000
Canada Life Setanta Pension Money	1.08%	1.30%	1.93%	2.62%	3.62%	5.56%	37,190,000
Friends Cash	1.33%	2.62%	2.29%	2.73%	3.70%	5.67%	37,819,000
Hibernian L&P Pension Cash	1.57%	1.72%	2.22%	Not Started	Not Started	Not Started	44,700,000
Irish Life Exempt Cash 1	1.20%	1.42%	2.06%	2.69%	3.75%	5.58%	400,000
Lifetime/BIAM Pen Security	0.90%	1.11%	1.73%	2.22%	3.51%	5.55%	9,502,000
New Ireland Pension Cash 2	1.13%	1.34%	1.88%	2.47%	3.52%	5.68%	39,404,000
Royal Liver Money Fund	0.64%	0.78%	1.38%	Not Started	Not Started	Not Started	3,409,780
Standard Cash 1 G	0.95%	1.20%	1.81%	2.46%	3.46%	5.47%	18,673,000
MoneyMate Sector Average	1.16%	1.50%	2.12%	2.75%	3.89%	5.81%	
Fixed Interest							
Eagle Star Active Pension	7.50%	8.69%	6.13%	8.32%	Not Started	Not Started	39,912,000
Eagle Star Long Bond Fund	9.06%	10.38%	Not Started	Not Started	Not Started	Not Started	8,919,000
Canada Life Setanta Pen Fixed Interest	6.27%	7.29%	5.15%	6.64%	8.04%	8.83%	9,760,000
Friends Fixed Interest	5.37%	7.52%	5.67%	6.63%	9.41%	9.34%	143,057,000
Hibernian L&P Pension (Hib) H-R Gilt	7.57%	9.34%	7.45%	8.02%	10.15%	8.96%	11,400,000
Irish Life Exempt Fixed Interest 2	6.31%	8.24%	5.77%	6.76%	9.05%	8.87%	4,200,000
New Ireland Pension Gilt Edge 2	5.94%	6.92%	6.00%	7.01%	9.11%	8.65%	556,575,000
Royal Liver Fixed Interest	4.91%	6.19%	5.07%	Not Started	Not Started	Not Started	7,063,326
Standard Fixed Interest 1 G	6.24%	7.61%	4.37%	5.75%	8.22%	8.41%	6,718,000
MoneyMate Sector Average	6.12%	7.51%	5.85%	7.11%	9.08%	8.89%	
International Equity							
Eagle Star International Dynamic	1.22%	1.49%	-3.29%	-1.78%	Not Started	Not Started	32,406,000
Ark Life Pension Global	3.87%	5.14%	-6.67%	Not Started	Not Started	Not Started	3,032,000
Canada Life Passive Equity 1	2.66%	1.71%	Not Started	Not Started	Not Started	Not Started	1,810,000
Friends International	2.02%	3.88%	-5.14%	-6.47%	5.54%	4.83%	631,883,000
Hibernian L&P Pension (Hib) H-R International	3.85%	5.46%	-5.10%	-4.98%	6.15%	7.56%	13,800,000
Irish Life Fidelity Managed Intl	-0.76%	-1.95%	-9.59%	Not Started	Not Started	Not Started	Not Available
New Ireland Pension International 2	2.04%	3.64%	-4.60%	-2.38%	7.43%	Not Started	1,597,765,000
Royal Liver International Equity	1.85%	3.27%	-5.85%	Not Started	Not Started	Not Started	6,404,784
Standard International Equity 1 G	3.29%	2.44%	-4.16%	-4.08%	6.96%	6.66%	14,029,000
MoneyMate Sector Average	2.69%	3.40%	-5.01%	-4.53%	6.21%	6.49%	
Managed Aggressive							
Eagle Star Dynamic	6.81%	8.91%	0.72%	-0.94%	9.39%	13.90%	339,313,000
Acorn Life Pension Managed Growth	5.73%	7.04%	-0.90%	-1.25%	8.97%	8.68%	151,300,000
Hib Life & Pen NU Focussed Managed D	6.15%	8.23%	1.97%	2.15%	Not Started	Not Started	12,100,000
Lifetime/BIAM Pen Opportunity	4.37%	6.30%	0.94%	2.17%	9.50%	6.89%	7,325,000
New Ireland 2016/2040 Series 3	4.93%	7.06%	1.18%	1.76%	10.24%	Not Started	533,999,000
Royal Liver Managed Fund	7.59%	10.91%	0.07%	Not Started	Not Started	Not Started	17,980,714
MoneyMate Sector Average	5.72%	7.79%	0.35%	0.58%	9.68%	10.41%	
Managed Balanced							
Eagle Star Balanced	6.75%	8.50%	1.66%	0.98%	10.09%	12.84%	512,357,000
Eagle Star Performance	6.72%	8.55%	1.29%	0.06%	9.66%	12.65%	390,864,000
Acorn Life Pension Managed	5.22%	6.33%	0.43%	0.75%	9.34%	9.50%	114,000,000
Ark Life Pension Managed 2	5.24%	6.42%	-2.99%	-2.44%	Not Started	Not Started	298,472,000
Canada Life Setanta Pension Managed	5.96%	8.55%	1.08%	0.59%	8.68%	7.72%	246,390,000
Friends Managed	5.16%	7.56%	0.64%	-0.11%	8.93%	7.86%	751,323,000
Hibernian L&P Pension (Hib) H-R Managed	7.59%	9.56%	1.16%	1.26%	9.41%	8.25%	161,200,000
Irish Life Exempt Active Managed 2	7.13%	8.20%	1.36%	1.93%	8.60%	8.15%	536,600,000
Lifetime/BIAM Pen Growth	5.00%	6.94%	2.22%	3.33%	9.97%	9.25%	461,774,000
New Ireland Pension Managed 2	5.22%	7.21%	2.22%	3.10%	10.55%	9.25%	1,828,725,000
Standard Managed 1 G	6.69%	7.44%	0.23%	-0.21%	7.88%	7.58%	129,899,000
MoneyMate Sector Average	5.66%	7.76%	0.75%	0.99%	9.01%	8.86%	

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

Investment Performance Report

Annualised Performance to 1st November 2004

	Year to Date	1 Year	Annualised 3 Years	Annualised 5 Years	Annualised 10 Years	Annualised 15 Years	Fund Size (€)
Euro Equity							
Eagle Star Eurozone G	9.13%	14.53%	Not Started	Not Started	Not Started	Not Started	1,839,000
Ark Life Eurozone 2 G	2.65%	8.31%	-5.82%	Not Started	Not Started	Not Started	79,562,000
Hibernian L&P Euro Equity G	6.16%	11.94%	-2.86%	Not Started	Not Started	Not Started	800,000
New Ireland Euroland Equity 8 G	6.96%	13.74%	-5.16%	Not Started	Not Started	Not Started	5,430,000
MoneyMate Sector Average¹	3.78%	9.51%	-5.68%	N/A	N/A	N/A	
European Equities²							
Eagle Star 5★5 Europe	15.00%	Not Started	Not Started	Not Started	Not Started	Not Started	3,671,000
BOI Life - Unit Funds European Ex UK 2 G	4.98%	11.79%	-5.63%	Not Started	Not Started	Not Started	4,089,000
Canada Life /Setanta European Equity G	5.40%	10.44%	-3.18%	Not Started	Not Started	Not Started	8,410,000
Friends First European Equity	2.74%	8.05%	Not Started	Not Started	Not Started	Not Started	204,288,000
Hibernian L&P European Equity G	5.52%	10.96%	-3.16%	Not Started	Not Started	Not Started	2,400,000
Irish Life Indexed Europe 1 G	3.39%	10.65%	-4.63%	Not Started	Not Started	Not Started	950,000
New Ireland European Equity 8 G	5.72%	12.85%	-4.69%	Not Started	Not Started	Not Started	341,217,000
Royal Liver European Equity G	9.94%	15.47%	-0.67%	Not Started	Not Started	Not Started	3,851,931
Standard Life MW European Equity 5 G	4.62%	7.94%	-2.23%	Not Started	Not Started	Not Started	12,044,000
MoneyMate Sector Average¹	5.41%	9.06%	-2.95%	-3.81%	N/A	N/A	
Far East Equity²							
Eagle Star 5★5 Asia Pacific	12.20%	Not Started	Not Started	Not Started	Not Started	Not Started	5,353,000
BOI Life - Unit Funds Far East Equity 2 G	-1.17%	-5.34%	-2.68%	Not Started	Not Started	Not Started	60,804,000
Hibernian L&P Pacific Basin Equity G	6.66%	3.22%	5.48%	Not Started	Not Started	Not Started	500,000
Irish Life Indexed Pacific Basin 1 G	8.82%	3.72%	4.71%	Not Started	Not Started	Not Started	350,000
New Ireland Pacific Basin 8 G	2.76%	-2.39%	3.02%	Not Started	Not Started	Not Started	87,030,000
Standard Life MW Pacific Basin Equity 5 G	3.88%	-2.33%	2.99%	Not Started	Not Started	Not Started	2,237,000
MoneyMate Sector Average¹	3.80%	-2.71%	1.52%	N/A	N/A	N/A	
American Equity²							
Eagle Star 5★5 Americas	0.70%	Not Started	Not Started	Not Started	Not Started	Not Started	936,000
BOI Life - Unit Funds North American 3 G	-0.67%	-1.23%	-5.02%	Not Started	Not Started	Not Started	310,174,000
Hibernian L&P US Equity G	1.17%	1.17%	-8.21%	Not Started	Not Started	Not Started	1,100,000
Irish Life Fidelity American Growth 1 G	-6.73%	-11.01%	-8.23%	Not Started	Not Started	Not Started	650,000
New Ireland North American 8	0.53%	0.26%	-3.27%	Not Started	Not Started	Not Started	367,753,000
Standard Life MW North American Equity 5 G	-0.23%	-2.96%	-8.04%	Not Started	Not Started	Not Started	7,383,000
MoneyMate Sector Average¹	0.42%	-1.81%	-7.07%	-0.25%	Not Started	N/A	
Concentrated Funds³							
Eagle Star 5★5	7.21%	6.27%	6.28%	Not Started	Not Started	Not Started	110,956,000
New Ireland Smart Stocks 15	-1.78%	-1.78%	-8.64%	Not Started	Not Started	Not Started	12,805,000
New Ireland Smart Stocks 35	-0.32%	-0.64%	-7.58%	Not Started	Not Started	Not Started	11,486,000
Canada Life/Setanta Focus 15	3.41%	3.57%	-9.76%	Not Started	Not Started	Not Started	35,630,000
Hib Life & Pens Target 20	-0.91%	-0.03%	-11.30%	Not Started	Not Started	Not Started	28,400,000
Average of Selected Funds	1.52%	1.48%	-6.20%	N/A	N/A	N/A	
Consensus Funds⁴							
Irish Life Exempt Consensus	7.56%	8.96%	0.78%	0.91%	Not Started	Not Started	752,600,000
Friends Individual Consensus	7.72%	10.29%	1.19%	1.06%	Not Started	Not Started	16,504,000
Canada Life Consensus Index 1	6.60%	8.39%	0.19%	0.44%	Not Started	Not Started	36,840,000
Hib Life & Pen NU Pen Grp Consensus	6.85%	8.66%	0.92%	0.93%	Not Started	Not Started	90,100,000
BIAM (Grp) EUT Consensus Fund	11.39%	12.60%	1.65%	1.57%	Not Started	Not Started	Not Available
Average of Selected Funds	8.03%	9.78%	0.94%	0.98%	N/A	N/A	

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

Source: MoneyMate as at 01/11/04.

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.