Phillips, Hager & North U.S. Special Equity Fund

Semi-Annual Report
June 30, 1993

The Phillips, Hager & North U.S. Special Equity Fund was established on October 13, 1992 with a net asset value of $10.00 Cdn. per share. As of June 30, 1993, the net asset value per share was $11.99 Canadian. A 2 cent stock dividend was paid at the end of 1992. This represents a gain of 20.1% in NAVPS since inception. The gain for the first six months of 1993 was 1.1%

PERFORMANCE COMPARISONS*

	Oct 13/93 to Dec 31/92	Mar 31/93 1st Qtr	June 30/93 2nd Qtr	YTD
US Special Equity Fund $CDN	**18.80%**	**0.30%**	**0.80%**	**1.10%**
US Special Equity Fund $US	**16.30%**	**1.30%**	**-1.00%**	**0.30%**
S&P 500 $U.S.	7.30%	4.40%	0.30%	4.90%
S&P Midcap $U.S.	13.20%	3.50%	2.30%	5.80%
Wilshire 5000 $U.S.	9.30%	4.10%	0.60%	4.70%
NASDAQ Composite $U.S.	17.70%	2.50%	2.50%	5.00%

* includes income in all cases.

The Fund's results for the first six months of 1993 were not up to the Manager's expectations. The aggressive investment philosophy of the Fund is expected to result in above average growth combined with above short term price volatility. Since the market correction of early February, short term price volatility has continued, while above average growth has been elusive, despite several short term periods when the portfolio was catching up to the market averages. This is frustrating because the economy is performing in a way that should be good for equities and particularly good for aggressive stock selection.

It was anticipated in the Fund's 1992 Annual Report that the economy would continue to grow slowly and that interest rates would be slow to rise. Growth in the first six months of 1993 has been even slower than anticipated and interest rates actually continued to decline. Slow growth and low interest rates in a low inflationary environment should be ideal for stocks prices, and in fact, despite the February market sell-off and erratic recovery, the indexes are currently back to new highs.

Stocks that had been particularly strong during the October 1992 to January 1993 period, tended to correct more than the overall market during the February sell-off. This is normal for an intermediate term reaction. What is less typical is the extent to which the correction has rotated through just about every sector of the market and the degree to which some individual stocks sold off during this period. This widespread rotational correction and consolidation has unnerved investors. Signs of excessive optimism prevalent at the beginning of the year, such as the frenzy to buy new issues, extremely high levels of mutual fund sales, and generally bullish expectations, have now been worked off. The stock market is currently in much better technical shape and should once again start to reflect the favourable underlying economic trends and the progress in individual company operating results.

Over the short term, the slower than expected growth is probably behind the Fund's erratic performance. Any stock that reported earnings growth even slightly below expectations was sharply marked down in price – often by 10% to 30% in just a day or two. Even changes in broker's recommendations could destroy a good market action. While this is still happening to a lesser degree, the bulk of the adjustment to lower growth expectations appears to be over. Stocks that have been hit are beginning to recover. However, the recoveries are usually much more gradual compared to the instantaneous mark downs during the correction. This steady recovery bodes well for the rest of the year.

There are many reasons to be optimistic about the outlook for the economy and the potential for earnings growth of individual companies. As mentioned before, interest rates are still falling; there has been no extended market correction in the post-war period until interest rates have been rising for an extended period. Inflation is still very low and this is reinforced by a daily list of anecdotal evidence of price softness. Companies still have costs firmly under control and continue to strive for greater efficiency by reducing unnecessary jobs and general restructuring. Wage increases are very moderate in this environment. Any increase in the rate of economic growth should translate into even greater earnings gains.

Obviously, the sluggish employment growth and restrained wage increases caused stagnant disposable income and low consumer confidence. This reinforced the slowness of the economic recovery. Nevertheless, the economy is growing and low interest rates will help keep it growing. Consumers are increasing their spending on durable goods. Cost saving, capital expenditures are being made by businesses. There are virtually none of the excesses in the economy which typically foreshadow an economic turndown.

There continues to be worldwide pressure building on governments to stimulate growth and foster job creation as opposed to limiting inflation. As evidence of this, interest rates have been failing even in Germany and Japan, the countries whose governments have been most reluctant to lowering rates. The pressure to stimulate growth will continue in the foreseeable future.

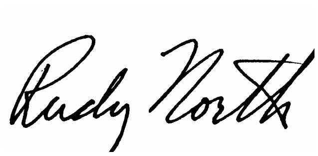
Most governments have deficit problems and are more likely to increase taxes that attempt to stimulate their economies through lowering taxes. However, the growth in the world monetary supply has been trending downward for years. It seems inevitable that governments will take advantage of the fact that greater monetary stimulation is possible. Although monetary policy has been out of favour as a theory to explain economic growth for a number of years, there is no evidence based on the record that the theory does not explain long term economic growth rates. It will be most interesting to see if the rate of world monetary growth begins to accelerate and if, in fact, this is followed by increased economic growth as anticipated. If this works out as expected, it will be an intermediate to long term plus for the global economy.

Regarding individual stocks, there are many companies in the portfolio that have continued to perform well, both in terms of operating results and market action. Other companies continue to show earnings growth but at a rate slightly below earlier expectations. In many instances, this shortfall has been due to the slower than anticipated growth in Europe. Regardless of the reasons, all stocks that have experienced a reduction in earnings growth expectations have tended to suffer very sharp market corrections. Some of them are beginning to recover and represent very good investment value given the current earnings expectations. The results of some companies have not developed as anticipated and have been sold.

There still seems to be a great contrast in the growth potential for different companies. Several new investments with above average prospects have been added to the portfolio. In this regard, several technology companies and certain medical care companies have been added to make these groups quite heavily weighted in the portfolio. These two groups have been very volatile and, to date, have contributed to the Fund lagging the market in the first six months of the year. On the other hand, they have favourable earnings prospects and attractive valuations at current prices. Both groups are expected to make an important contribution to the Fund’s performance during the remainder of the year.

While it has been a hazardous market, the excesses have dissipated and the underlying economic fundamentals are consistent with sustained economic growth. Earnings growth should also continue and will likely accelerate as we get further into the economic cycle. The Fund will continue to be managed aggressively, stressing high potential growth situations and remaining virtually fully invested.

Yours truly,



Rudy E. North