

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

Results & Commentary

May 1996

June 05, 1996

COMMENTARY

May was another good month for the U.S. equity market and the Phillips, Hager & North U.S. Special Equity Fund.

The current market advance is getting quite old. Since the beginning of 1996 an obvious fuel for this move has been the record level of purchases of Equity Mutual Funds by the public. Over the short term, it is hard for the market to go down in the face of so much new money "needing" to be put to work by Fund Managers. However, on a slightly longer term basis, such public enthusiasm tends to precede a correction by a number of months. The lead time is quite variable, and the only thing that can be said for certain is that with the passage of May the market is now one month closer to the "inevitable" correction. This is why the Fund has carried 12-15% cash in recent months.

After a strong showing in April, high-tech semiconductor, software, and communications stocks experienced a sharp set back on balance. This broad group of companies has not yet broken out of the downtrend that started last summer. Some individual stocks in the group are, however, standing up very well in the renewed period of weakness. Examples in the portfolio include Intel, Microsoft, and EMC.

Fundamentally, the market is benefiting from the combination of slow overall growth, low inflation and low interest rates. Days of market weakness have continued to be caused by news of "stronger than expected economic growth". The overall pattern, however, does not appear to be that of an accelerating economy. This pattern could continue for an extended period and stock selection will continue to be key to happiness.

RESULTS

NAVPS: May 31, 1996

\$16.37 (Canadian)

PERFORMANCE COMPARISONS*

	Dec. 31, 95 to Mar. 29, 96	Mar. 29, 96 to May 31, 96	April 30, 96 to May 31, 96	Year to Date
U.S. Special Equity Fund \$Cdn	+10.3%	+8.1%	+3.6%	+19.2%
U.S. Special Equity Fund \$U.S.	+10.7%	+7.3%	+3.1%	+18.8%
S&P 500 \$U.S.	+5.4%	+4.1%	+2.6%	+9.7%
S&P Midcap \$U.S.	+6.4%	+4.3%	+1.4%	+10.9%
Russell 2000 \$U.S.	+5.1%	+9.5%	+4.0%	+15.1%
NASDAQ Composite \$U.S.	+4.9%	+13.1%	+4.5%	+18.6%

* Including income in all cases.

PORTFOLIO FUND VALUATION - MAY 31, 1996 (as a %)

Allied Healthcare (AHPI)	0.57
Amerilink Corp. (ALNK)	0.99
AMR Corporation (AMR)	2.82
Applied Materials Inc. (AMAT)	0.19
Astec Inds Inc. (ASTE)	0.74
Bay Networks (BAY)	0.11
Biowhittaker Inc. (BWI)	0.66
BMC West Corp (BMCW)	1.48
Carnival Corp (CCL)	1.78
Chesapeake Energy (CHK)	7.25
Clayton Homes, Inc. (CMH)	3.14
Columbia/HCA Healthcare (COL)	5.62
CompUSA Inc. (CPU)	2.18
Covenant Transportation (CVTI)	1.15
Diamond Offshore Drilling (DO)	1.19
Deere & Company (DE)	3.11
Destec Energy (ENG)	0.34
Digital Equipment (DEC)	2.59
Dress Barn Inc. (DBRN)	2.28
DSG International (DSGIF)	1.78
EMC Corp. (EMC)	1.21
Falcon Building Prod. (FB)	1.41
Fleet Financial Group, Inc. (FLT)	3.29
Fred Meyer Inc. (FMY)	0.72
Gap, Inc. (GPS)	3.34
Greyhound Lines Inc. (BUS)	0.91
Harnischfeger Inds. (HPH)	1.26
Hi-Lo Automotive (HLO)	0.24
Intel Corp. Common (INTC)	0.38
Jones Apparel Group, Inc. (JNY)	4.44
Kellwood Co. (KWD)	1.07
Linear Technology (LLTC)	0.17
Mascotech Inc. (MSX)	0.69
Maverick Tube Corp. (MAVK)	0.98
Mesa Airlines Inc. (MESA)	1.32
Michaels Stores (MIKE)	0.41
Microsoft Corp. (MSFT)	0.30
Mississippi Chemical (MISS)	1.99
Mohawk Industries (MOHK)	0.67
Nike, Inc. (NKE)	4.99
Nine West Group (NIN)	2.42
Nucor Corp. (NUE)	0.41
O'Sullivan Industries (OSU)	0.57
Owosso Corp. (OWOS)	0.81
Pier 1 Imports Inc. (PIR)	1.40
Pope & Talbot (POP)	1.04
Praxair Inc. (PX)	4.04
Price/Costco Inc. (PCCW)	3.03
Singer Co. (SEW)	1.74
Texas Instruments Inc. (TXN)	0.28
Top Source Tech (TPS)	0.18
Vishay Intertechnology Inc. (VSH)	0.29
Wellpoint Health Networks (WLP)	1.88
Total Equities	87.83
Cash and Short Term Notes	12.17
TOTAL ASSETS	100.00%