

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

Results & Commentary

August 1996

September 05, 1996

COMMENTARY

August turned out to be a pretty good month. The Fund rallied strongly as the general market recovered and even held up relatively well on weak days. The Fund continues to outperform the indexes that we follow for our monthly updates.

Chesapeake Energy has been one of the Funds strong performers over the past three years. Indeed, it has probably been the best stock in the Fund Manager's career. The stock has been routinely trimmed back to about 7% every time it went over 8% during the last year and a half. More recently, it was reduced to under 5% on strength.

Following a sharp correction in July, Chesapeake rallied over 25% towards the end of August. The Fund took this opportunity to sell its position in Chesapeake down to 2%. This seems appropriate since the stock has risen so much and there are a few indigestion spots showing up in current exploration results. It is hard to sell such a good stock and easy to rationalize small problems as not being significant. In fact, they may not be significant and there is a very plausible case that Chesapeake has a lot of future potential. However, it is the manager's opinion that the stock is losing momentum and could be vulnerable to short term disappointment since it has risen 159% since the beginning of the year. The position could be added to if the stock corrects again, but it will not likely ever be a "7%-plus" holding again.

Like the Labour Day weekend, this is all a bit sad. Fortunately there are still a number of interesting situations showing up and the Fund is managing to retain a constructive outlook.

RESULTS

NAVPS: August 30, 1996

\$16.34 (Canadian)

PERFORMANCE COMPARISONS*

	Dec. 31, 95 to June 30, 96	June 30, 96 to Aug. 31, 96	July 31, 96 to Aug. 31, 96	Year to Date
U.S. Special Equity Fund \$Cdn	+17.4%	+1.4%	+6.7%	+19.0%
U.S. Special Equity Fund \$U.S.	+17.4%	+1.0%	+7.2%	+18.6%
S&P 500 \$U.S.	+10.1%	-2.4%	+2.1%	+7.5%
S&P Midcap \$U.S.	+9.3%	-1.3%	+5.8%	+7.9%
Russell 2000 \$U.S.	+10.4%	-3.4%	+5.8%	+6.6%
NASDAQ Composite \$U.S.	+13.1%	-3.5%	+5.7%	+9.2%

* Including income in all cases.

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

Allied Healthcare (AHPI)	0.32
Amerilink Corp. (ALNK)	0.90
AMR Corporation (AMR)	2.45
Applied Materials Inc. (AMAT)	0.12
APS Holdings (APSI)	1.39
Astec Inds Inc. (ASTE)	0.64
Bay Networks (BAY)	2.16
Biowhittaker Inc. (BWI)	0.53
BMC West Corp (BMCW)	1.37
Carnival Corp (CCL)	1.69
Chesapeake Energy (CHK)	2.01
Clayton Homes, Inc. (CMH)	3.28
Columbia/HCA Healthcare (COL)	5.88
CompUSA Inc. (CPU)	2.00
Covenant Transportation (CVTI)	1.36
Diamond Offshore Drilling (DO)	2.54
Deere & Company (DE)	3.96
Destec Energy (ENG)	1.19
Digital Equipment (DEC)	1.92
Dress Barn Inc. (DBRN)	2.04
DSG International (DSGIF)	1.43
EMC Corp. (EMC)	1.05
Falcon Building Prod. (FB)	1.46
Fleet Financial Group, Inc. (FLT)	3.12
Fred Meyer Inc. (FMY)	0.74
Gap, Inc. (GPS)	3.48
Greyhound Lines Inc. (BUS)	0.78
Harcor Energy (HARC)	0.44
Harnischfeger Inds. (HPH)	1.36
Intel Corp. Common (INTC)	6.36
Jones Apparel Group, Inc. (JNY)	4.82
Kellwood Co. (KWD)	1.81
Kemet Corporation (KMET)	0.42
Linear Technology (LLTC)	0.17
Mascotech Inc. (MSX)	0.67
Maverick Tube Corp. (MAVK)	0.91
Mesa Airlines Inc. (MESA)	0.98
Michaels Stores (MIKE)	1.05
Microsoft Corp. (MSFT)	0.30
Mississippi Chemical (MISS)	2.02
Mohawk Industries (MOHK)	0.91
Nike, Inc. (NKE)	5.38
Nine West Group (NIN)	2.56
Nucor Corp. (NUE)	0.35
O'Sullivan Industries (OSU)	1.15
Owosso Corp. (OWOS)	0.71
Pier 1 Imports Inc. (PIR)	1.49
Pope & Talbot (POP)	1.39
Praxair Inc. (PX)	4.09
Price/Costco Inc. (PCCW)	3.02
Singer Co. (SEW)	1.75
Texas Instruments Inc. (TXN)	0.23
Top Source Tech (TPS)	0.12
Vishay Intertechnology Inc. (VSH)	0.21
Wellpoint Health Networks (WLP)	3.81
Total Equities	98.29
Cash and Short Term Notes	1.71
TOTAL ASSETS	100.00%