

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

Results & Commentary

September 1996

October 09, 1996

COMMENTARY

September was another good period for the Fund, particularly during the first two weeks. After such strong performance over the past two months a number of stocks in the portfolio are likely a bit ahead of themselves. For this reason a number of positions have been trimmed and the cash portion has swung from virtually zero at mid-month to 12% on September 30.

The economic background is still positive. Low rates of inflation, low interest rates and moderate, possibly even slowing, economic growth is positive for the stock market.

It should be noted, however, that a lot of attention has been recently focused on the fact that price earnings are higher than we have become accustomed to for the past few years. In a low interest rate environment this is logical, and higher than average multiples could persist for an extended period of time.

The reasons for anticipating a short-term market correction at this time are mostly subjective. High levels of Mutual Fund sales and record levels of Initial Public Offerings are indications that market sentiment is possibly a bit too optimistic short-term. Finally, it is October, which is often a poor month for U.S. equity markets. Although there is no valid "scientific" reason to explain this observation, the Fund's manager points it out because it is comparable with his feeling that a short-term market correction would be quite logical between now and year end.

The Fund's cash position will fluctuate at levels below 20% as long as interest rates remain at the current levels. New positions are being added to the Fund and stock selection will continue to be the Fund's primary focus.

RESULTS

NAVPS: September 30, 1996

\$17.15 (Canadian)

PERFORMANCE COMPARISONS*

	Dec. 31, 95 to June 30, 96	June 30, 96 to Sept. 30, 96	Aug. 31, 96 to Sept. 30, 96	Year to Date
U.S. Special Equity Fund \$Cdn	+17.4%	+6.4%	+5.0%	+24.9%
U.S. Special Equity Fund \$U.S.	+17.4%	+6.5%	+5.4%	+25.0%
S&P 500 \$U.S.	+10.1%	+3.1%	+5.6%	+13.5%
S&P Midcap \$U.S.	+9.3%	+3.0%	+4.4%	+12.6%
Russell 2000 \$U.S.	+10.4%	+0.3%	+3.9%	+10.7%
NASDAQ Composite \$U.S.	+13.1%	+3.8%	+7.5%	+17.4%

* Including income in all cases.

PORTFOLIO FUND VALUATION - SEPTEMBER 30, 1996 (as a %)

Allied Healthcare (AHPI)	0.34
Amerilink Corp. (ALNK)	0.85
AMR Corporation (AMR)	0.37
Applied Materials Inc. (AMAT)	0.13
APS Holdings (APSI)	1.37
Astec Inds Inc. (ASTE)	0.21
Bay Networks (BAY)	2.02
Biowhittaker Inc. (BWI)	0.47
BMC West Corp (BMCW)	0.98
Carnival Corp (CCL)	1.75
Chesapeake Energy (CHK)	2.21
Clayton Homes, Inc. (CMH)	3.39
Columbia/HCA Healthcare (COL)	5.61
CompUSA Inc. (CPU)	2.54
Covenant Transportation (CVTI)	1.36
Diamond Offshore Drilling (DO)	2.59
Deere & Company (DE)	3.95
Destec Energy (ENG)	1.01
Digital Equipment (DEC)	1.26
Dress Barn Inc. (DBRN)	1.99
DSG International (DSGIF)	1.48
EMC Corp. (EMC)	0.96
Falcon Building Prod. (FB)	1.53
Fleet Financial Group, Inc. (FLT)	3.14
Fred Meyer Inc. (FMY)	0.78
Gap, Inc. (GPS)	3.40
Greyhound Lines Inc. (BUS)	0.75
Harcor Energy (HARC)	0.52
Harnischfeger Inds. (HPH)	0.22
Intel Corp. Common (INTC)	4.94
Intervoice (INTV)	0.21
Jones Apparel Group, Inc. (JNY)	3.75
Kellwood Co. (KWD)	1.76
Kemet Corporation (KMET)	0.71
Linear Technology (LLTC)	0.17
Maverick Tube Corp. (MAVK)	0.66
Mesa Airlines Inc. (MESA)	0.09
Michaels Stores (MIKE)	1.04
Microsoft Corp. (MSFT)	0.31
Mississippi Chemical (MISS)	1.98
Mohawk Industries (MOHK)	0.96
Nike, Inc. (NKE)	4.57
Nine West Group (NIN)	1.28
Nucor Corp. (NUE)	0.36
Orcad Inc. (OCAD)	0.49
O'Sullivan Industries (OSU)	1.04
Owosso Corp. (OWOS)	0.67
Pier 1 Imports Inc. (PIR)	1.35
Pope & Talbot (POP)	1.27
Praxair Inc. (PX)	4.04
Precision Castparts (PCP)	0.23
Price/Costco Inc. (PCCW)	2.94
Singer Co. (SEW)	1.65
Texas Instruments Inc. (TXN)	0.26
Wellpoint Health Networks (WLP)	3.77
Wendy's Int'l (WEN)	0.30
Total Equities	87.94
Cash and Short Term Notes	12.06
TOTAL ASSETS	100.00%