
PHILLIPS, HAGER & NORTH SPECIAL U.S. EQUITY FUND
RESULTS & COMMENTARY
MAY 1997

COMMENTARY

May was a good month for U.S. Equity markets. Small and mid cap stocks did some catching up to the S&P 500 Index which has been the strongest sector of the U.S. market for the past 3 1/2 years. For the year to date, the Fund has done almost as well as the S&P 500 Index and has significantly outperformed the other indices that are being followed. The Funds 12 month return of 24.8% compares to a return of 29.4% for the S&P 500 Index.

The S&P 500 Index is estimated to represent 84% of all U.S. publicly held equities. The PH&N Special Equity Fund held 32.2% of its assets in stocks that are represented in the S&P 500 Index, a pretty clear underweighting. The Fund's managers might be wrong, but it is in their opinion that concentration on 500 companies that make up 84% of the U.S. equity markets is unlikely to be a winning strategy long-term. You may ask why not be heavily committed to the S&P 500 when it clearly *has been* the place to be? A discussion of how to utilize *hindsight* in making effective investment decisions is beyond the scope of this report.

The Fund's portfolio seems to be working well. Some major shifts have been made out of stocks that have been performing well but are getting expensive and

appear to be losing momentum. Cash levels have been fluctuating because of this selling. The proceeds of these sales are getting redeployed as we identify stocks that have underperformed the market over the past year or more because of a variety of reasons but are currently getting their operations on track and beginning to show better market performance.

The Fund had a cash buying reserve of 7.82% on May 31. This buying reserve could increase significantly from time to time under extraordinary circumstances. Possible reasons for letting buying reserves grow could be an apparent "blow off rally" or a period of rapidly rising interest rates. Nevertheless, we believe that concentrating on **stock selection** and **staying close to fully invested** *almost all of the time* will prove to be the best long-term investment strategy.

Yours truly,



Rudy North

RESULTS

NAVPS: May 31/97 - \$17.94 Cdn

PERFORMANCE COMPARISONS*

	Dec. 31, 96 to Mar. 31, 97	Apr.1, 97 to Apr. 31, 97	May 1, 97 to May 31, 97	Year to Date
U.S. Special Equity Fund \$Cdn	3.8%	2.5%	7.9%	14.9%
U.S. Special Equity Fund \$U.S.	2.7%	1.5%	9.5%	14.2%
S&P 500 \$U.S.	2.7%	6.0%	6.1%	15.4%
S&P Midcap \$U.S.	-1.5%	2.6%	8.7%	9.9%
Russell 2000 \$U.S.	-5.5%	0.3%	11.2%	6.7%
NASDAQ Composite \$U.S.	-5.4%	3.2%	11.1%	8.6%

* Source Bloomberg "Total Return Analysis"

Note - Including income in all cases.

Average Annual Compound Rate of Returns as of May 31/97

	<i>1 Year</i>	<i>2 Years</i>	<i>3 Years</i>	<i>4 Years</i>
U.S. Special Equity Fund \$Cdn	24.8%	29.7%	23.1%	20.9%

* Results are after all management fees and other expenses

PHILLIPS, HAGER & NORTH SPECIAL U.S. EQUITY FUND
Portfolio Valuation - May 31, 1997 (as a %)

Columbia/HCA Healthcare (COL)	5.02
CompUSA Inc. (CPU)	4.31
Costco Companies. (COST)	3.23
Kellwood Co. (KWD)	3.13
Precision Castparts (PCP)	3.07
Praxair Inc. (PX)	3.05
Inacom Corp (INAC)	3.03
Diamond Offshore Drilling (DO)	3.02
Wendy's International (WEN)	2.98
Jones Apparel Group, Inc. (JNY)	2.72
Clayton Homes, Inc. (CMH)	2.63
EMC Corp. (EMC)	2.62
Wellpoint Health Networks(WLP)	2.49
Dress Barn Inc. (DBRN)	2.33
Pier 1 Imports Inc. (PIR)	2.19
Claire's Stores (CLE)	2.15
AMR Corporation (AMR)	2.11
Texas Instruments Inc. (TXN)	2.08
Xerox Corp. (XRX)	2.04
Digital Equipment Corp (DEC)	1.97
Greyhound Lines Inc. (BUS)	1.93
Dsg International Ltd (DSGIF)	1.84
Deere & Company (DE)	1.78
Carnival Corp (CCL)	1.76
Mississippi Chemical (GRO)	1.58
Amerilink Corp. (ALNK)	1.50
Bay Networks (BAY)	1.49
Northwest Pipe Co. (NWPX)	1.36
Chesapeake Energy (CHK)	1.31
Maverick Tube Corp. (MAVK)	1.25
Singer Co NV (SEW)	1.24
Biowhittaker Inc. (BWI)	1.23
Owosso Corp. (OWOS)	1.22
O'Sullivan Industries (OSU)	1.22
Mesa Airlines Inc. (MESA)	1.16
Integrated Health (IHS)	1.13
Nextel Communications (NXTL)	1.13
Sierra Healthcare (SIE)	1.08
Boeing Co. (BA)	0.98
Harnischfeger Inds. (HPH)	0.97
3Com (COMS)	0.97
Covenant Transportation (CVTI)	0.96
Michaels Stores Inc (MIKE)	0.92
Orcad Inc. (OCAD)	0.92
Fred Meyer Inc. (FMY)	0.89
BMC West Corp (BMCW)	0.84
APS Holdings (APSI)	0.77
Costilla Energy (COSE)	0.54
Microsoft Corp. (MSFT)	0.38
Harcor Energy (HARC)	0.37
Intel Corp. Common (INTC)	0.29
Applied Materials (AMAT)	0.25
Greenbrier Cos Inc (GBX)	0.22
Hewlett Packard(HWP)	0.20
Lone Star Steakhouse (STAR)	0.20
Intervoice (INTV)	0.13
Total Equities	92.18
Cash and Short Term Notes	7.82
TOTAL ASSETS	100.00%