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

COMMENTARY

August was a very mixed month for U.S. equity markets.

The PH&N U.S. Special Equity Fund performed quite well during August. As a result the year to date return of 26.0% in U.S. dollars slightly exceeded the returns of all the indices that we regularly follow. This happy situation is not a goal of the Fund since it is only realistic to expect that at any given time there will be one index that will be having its day in the Sun and will be outperforming all the other indices and the Fund. This time it was the Fund's turn.

Much more important are the annual rates of returns for one year, two year, three year and four year periods. These results are quite respectable as of the end of August. Without implying disaster ahead, your management would like to point out that even 22.4% per annum over a 4 year period is above the type of return that should be expected over a typical 10 year period. Remember that 20% per annum for ten years results in an over **six** fold increase.

The Semi-Annual report is being written at this time so your manager is not going to comment in detail on any of the economic and market factors that will be covered in that report.

The one obvious point that needs to be addressed is that, on an intermediate term basis, the U.S. Equity Markets are quite extended and have started to correct. Theoretically this should make our 20 percentish cash buying reserve look like a good policy. However since the Fund has been continuing to hit new highs, we cannot yet say that raising a buying reserve has been a good move.

Selection still appears to be winning over market timing. Nevertheless a buying reserve fluctuating around the 20% level will be maintained until we see some significant buying opportunities. Surprisingly even though the market is quite fully priced, we are finding individual stocks that appear to have interesting potential.

Yours truly,



Rudy North

## RESULTS

NAVPS: August 31/97 - \$19.93 Cdn

### PERFORMANCE COMPARISONS\*

	Dec. 31, 96 to June 30, 97	June 30, 97 to July 31, 97	July 31, 97 to Aug. 31, 97	Year to Date
U.S. Special Equity Fund \$Cdn	17.3%	6.4%	2.2%	27.6%
U.S. Special Equity Fund \$U.S.	16.4%	6.6%	1.5%	26.0%
S&P 500 \$U.S.	20.6%	8.0%	-5.6%	22.9%
S&P Midcap \$U.S.	13.0%	9.9%	-0.1%	24.0%
Russell 2000 \$U.S.	10.2%	4.7%	2.3%	17.9%
NASDAQ Composite \$U.S.	11.9%	10.6%	-0.4%	23.3%

\* Source Bloomberg "Total Return Analysis"

Note - Including income in all cases.

### Average Annual Compound Rate of Returns as of Aug 31/97

	1 Year	2 Years	3 Years	4 Years
U.S. Special Equity Fund \$Cdn	38.9%	33.2%	27.3%	22.4%

\* Results are after all management fees and other expenses

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

CompUSA Inc. (CPU)	5.26
Nextel Communications (NXTL)	4.79
Diamond Offshore Drilling (DO)	3.87
Kellwood Co. (KWD)	3.16
AMR Corporation (AMR)	3.00
Inacom Corp (INAC)	2.96
Precision Castparts (PCP)	2.91
Wendy's International (WEN)	2.81
Northwest Pipe Co. (NWPX)	2.78
Clayton Homes, Inc. (CMH)	2.68
Wellpoint Health Networks(WLP)	2.60
Sierra Healthcare (SIE)	2.10
Xerox Corp. (XRX)	2.09
Dress Barn Inc. (DBRN)	2.06
Green Tree Financial (GNT)	2.04
Mississippi Chemical (GRO)	2.00
Comcast Corp CL A Special(CMCSK)	1.97
Amerilink Corp. (ALNK)	1.96
Carnival Corp (CCL)	1.86
Costco Companies. (COST)	1.64
Greyhound Lines Inc. (BUS)	1.64
Owosso Corp. (OWOS)	1.63
Greenbrier Cos Inc (GBX)	1.57
BMC West Corp (BMCW)	1.52
Chesapeake Energy (CHK)	1.46
Dsg International Ltd (DSGIF)	1.24
Claire's Stores (CLE)	1.11
Digital Equipment Corp (DEC)	1.10
Mesa Airlines Inc. (MESA)	1.09
Orcad Inc. (OCAD)	1.08
O'Sullivan Industries (OSU)	1.06
Michaels Stores Inc (MIKE)	1.05
Covenant Transportation (CVTI)	0.99
Tommy Hilfiger Corp (TOM)	0.99
Pier 1 Imports Inc. (PIR)	0.97
Barrett Business Services (BBSI)	0.95
Integrated Health (IHS)	0.95
Costilla Energy (COSE)	0.76
Maverick Tube Corp. (MAVK)	0.67
APS Holdings (APSI)	0.55
SBS Technologies(SBSE)	0.53
Fred Meyer Inc. (FMY)	0.46
Bay Networks (BAY)	0.41
Microsoft Corp. (MSFT)	0.37
Intel Corp. Common (INTC)	0.33
Harcor Energy (HARC)	0.29
Texas Instruments Inc. (TXN)	0.24
Omnipoint Corp(OMPT)	0.23
Hewlett Packard(HWP)	0.22
3Com (COMS)	0.21
Sun Microsystem Inc (SUNW)	0.20
Applied Materials (AMAT)	0.17
Intervoice (INTV)	0.10
Singer Co NV (SEW)	0.10
EMC Corp. (EMC)	0.09
Jones Apparel Group, Inc. (JNY)	0.09
<b>Total Equities</b>	<b>80.96</b>
<b>Cash and Short Term Notes</b>	<b>19.04</b>
<b>TOTAL ASSETS</b>	<b>100.00%</b>

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