
PHILLIPS, HAGER & NORTH SPECIAL U.S. EQUITY FUND

RESULTS & COMMENTARY

SEPTEMBER 1997

COMMENTARY

September must have been an OK month for the Fund since the monthly report is coming out early. Specifically the Fund has continued to outperform the indices and is closing the month on a new high of \$21.29 per unit, a 36.3% increase year to date.

The relative performance of the Fund during the month was quite erratic starting with a period of unbelievably strong performance, then a period where a portion of this gain was given up very quickly followed by another spurt of outperformance and ending the month on performance which seemed to reverse on an almost daily basis. The general pattern is that the Fund performed best when the market was only moderately up or even when the market was down. The market has been surging ahead any time that there has been any evidence of slower economic growth. On these days your Fund usually significantly lags the market. Interesting but what does it mean? We don't know! Of more significance to us is the monthly performance which has been favourable since July.

The Fund is now within a month of reaching its first 5 year period of operations, a period which we feel should be of interest to the long term growth investors that we assume our unitholders to be. This naturally brings up the question - What was our first year like? As it turns out it was pretty good and the commentary that we produced on it at the time is worth revisiting.

"The PH&N U.S. Special Equity Fund completed its first year of operation on October 13, 1993. It was an okay year with the Fund outperforming the S&P 500 Index by 8.6 percentage points in U.S. dollars. The Manager feels that significantly outperforming the S&P 500 over the long term is the objective of the Fund and that this target is realistic without undertaking an unacceptable degree of risk. However, the Fund is definitely being managed on the aggressive end of the firm's spectrum.

The junior indexes were stronger than the S&P 500 during this 12 month period. Small and medium cap stocks contributed to the Fund's outperformance of the S&P 500. On the other hand, a number of investments in large cap stocks also contributed to the

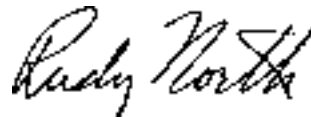
above average results. In both small and large cap segments, selection was the key to good results. This was particularly true during the past 12 months since the market action of individual stocks was very mixed and erratic. These cross-currents in individual stocks were much greater than the fluctuations in the overall market indicated. Whether small, medium or large cap stocks, the success of the Fund will continue to be dependent upon successfully identifying high potential investments - predominantly in growth stocks.

While it is tempting to dream of beating the best index each year, this is not the way it is going to be. The Fund will always have a significant commitment to small cap stocks. This is expected to contribute to above average long term results as well as contributing to the short term volatility of the Fund. If this policy is executed successfully, the result will be superior long term growth.

In summary, a pretty good first year with room for improvement in the current year without being unduly aggressive - just as aggressive as judged reasonable in the light of 30 years experience. Experience that the Manager has concluded favours being aggressive rather than defensive." - This October 13th 1993 commentary reflects the Fund's philosophy as well today as it did four years ago. With 8 business days to go it seems that the Fund will very soon have a respectable five year record—barring any October disaster.

Your manager's focus is to keep the record intact. This does not mean adding another 32.6% or 41.3% year but rather trying to be above the median Fund* in our sixth year regardless of the performance of the overall market.

Yours truly,



Rudy North

* as measured by the Globe & Mail

RESULTS

NAVPS: September 30/97 - \$21.29 Cdn

PERFORMANCE COMPARISONS*

	Aug. 29, 97 to Sept. 30, 97	Year to Date	Oct. 31, 92 to Oct. 31, 93	Sept. 30, 96 to Sept. 30, 97
U.S. Special Equity Fund \$Cdn	6.8%	36.3%	32.6%	41.3%
U.S. Special Equity Fund \$U.S.	7.4%	35.3%	24.2%	39.4%
S&P 500 \$U.S.	5.5%	29.6%	15.6%	40.4%
S&P Midcap \$U.S.	6.0%	31.2%	26.5%	39.1%
Russell 2000 \$U.S.	7.4%	26.5%	37.1%	33.0%
NASDAQ Composite \$U.S.	6.0%	31.0%	36.5%	37.9%

* Source Bloomberg "Total Return Analysis"

Note - Including income in all cases.

Average Annual Compound Rate of Returns as of Sept 30/97

	<i>1 Year</i>	<i>2 Years</i>	<i>3 Years</i>	<i>4 Years</i>
U.S. Special Equity Fund \$Cdn	41.3%	36.5%	31.2%	23.2%

* Results are after all management fees and other expenses

PHILLIPS, HAGER & NORTH SPECIAL U.S. EQUITY FUND
Portfolio Valuation - September 30, 1997 (as a %)

CompUSA Inc. (CPU)	5.54
Nextel Communications (NXTL)	5.14
Diamond Offshore Drilling (DO)	3.64
Xerox Corp. (XRX)	3.08
Inacom Corp (INAC)	2.97
Kellwood Co. (KWD)	2.89
AMR Corporation (AMR)	2.78
Clayton Homes, Inc. (CMH)	2.75
Precision Castparts (PCP)	2.72
Northwest Pipe Co. (NWPX)	2.66
Wellpoint Health Networks(WLP)	2.58
Wendy's International (WEN)	2.31
Amerilink Corp. (ALNK)	2.31
Sierra Healthcare (SIE)	2.18
Greenbrier Cos Inc (GBX)	2.06
Green Tree Financial (GNT)	2.03
Dress Barn Inc. (DBRN)	2.02
Comcast Corp CL A Special(CMCSK)	2.01
Carnival Corp (CCL)	1.83
Chesapeake Energy (CHK)	1.80
Mississippi Chemical (GRO)	1.67
Costco Companies. (COST)	1.59
Owosso Corp. (OWOS)	1.56
Greyhound Lines Inc. (BUS)	1.50
Mesa Airlines Inc. (MESA)	1.50
BMC West Corp (BMCW)	1.42
Orcad Inc. (OCAD)	1.29
Claire's Stores (CLE)	1.21
SBS Technologies(SBSE)	1.10
Michaels Stores Inc (MIKE)	1.09
Tommy Hilfiger Corp (TOM)	1.05
Digital Equipment Corp (DEC)	1.03
O'Sullivan Industries (OSU)	1.03
Covenant Transportation (CVTI)	0.98
Adobe Systems (ADBE)	0.96
Dsg International Ltd (DSGIF)	0.95
Pier 1 Imports Inc. (PIR)	0.95
Barrett Business Services (BBSI)	0.95
Integrated Health (IHS)	0.89
Maverick Tube Corp. (MAVK)	0.79
Brinker Int'l Inc (EAT)	0.49
Fred Meyer Inc. (FMY)	0.44
Bay Networks (BAY)	0.42
Microsoft Corp. (MSFT)	0.35
Intel Corp. Common (INTC)	0.30
Texas Instruments Inc. (TXN)	0.27
Hewlett Packard(HWP)	0.23
Omnipoint Corp(OMPT)	0.22
3Com (COMS)	0.20
Sun Microsystem Inc (SUNW)	0.19
Applied Materials (AMAT)	0.16
EMC Corp. (EMC)	0.10
Jones Apparel Group, Inc. (JNY)	0.09
Total Equities	82.27
Cash and Short Term Notes	17.72
TOTAL ASSETS	100.00%