



May 2007

Companies Recently Added

None this month.

Existing Positions Increased

None this month.

Existing Positions Decreased

None this month.

Positions Eliminated

United Parcel Services (UPS)

While the company's international segment appears to be growing in line with our estimates, overall earnings growth rates at UPS have slowed to single digit levels, rates lower than we expected, with the moderation in growth of the U.S economy. Competition is heating up from FedEx's ground network and it could lead to market share loss or pricing pressure for UPS. Operating margins for UPS have failed to expand as we expected and volume growth has been flat. We also believe the company's capital structure uses too little leverage, which limits growth. Moreover, inflationary pressures from higher fuel costs will likely limit future margin expansion. Due to these fundamental changes, the company no longer meets our criteria for ownership. As such, we plan to use the proceeds in more appropriate investments.

Wells Fargo Corporation (WFC)

Money center banks are working through a tougher than expected operating environment due to the inversion of the U.S. yield curve. Moreover, we do not believe that the full effects from the housing market slowdown have been reflected in the shares of Wells Fargo. As such, we elected to remove the shares at favorable levels, near a 52-week price high. Home equity loans represent approximately 22 percent of the firm's total loan book and Wells Fargo ranks as one of the nation's top ten largest subprime lenders. In addition, Wells Fargo's home state of California accounts for approximately 40 percent of all subprime borrowing in the U.S. Given both the growth and subsequent deterioration in the subprime market over recent periods, we have removed the company's shares from portfolios and will seek more suitable investment opportunities.

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