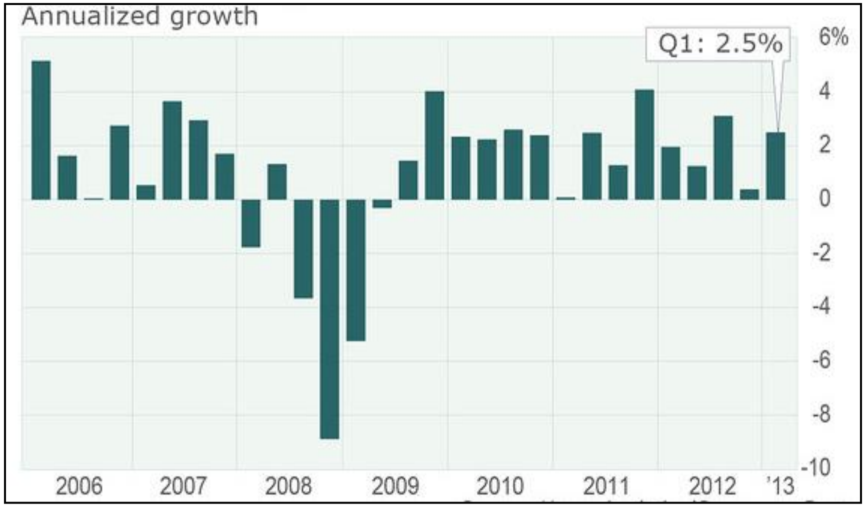
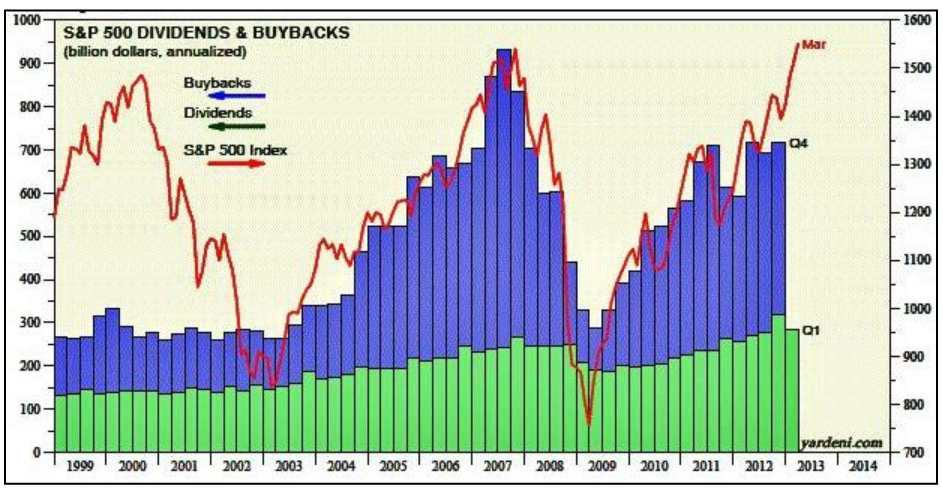
Market Recap

U.S. Annualized GDP Growth



Source: Department of Commerce

S&P 500 Dividends and Stock Buybacks



Source: Standard & Poor's

U.S. economic growth regained speed in the first quarter, but not as much as expected. Gross domestic product expanded at a 2.5% annual rate after growth nearly stalled at 0.4% in the fourth quarter of 2012. However, the increase missed economists' expectations for a 3.0% increase and heightened fears that the already-weakened economy is struggling to absorb government spending cuts and higher taxes. Part of the acceleration in growth reflected restocking of silos after the drought last summer decimated U.S. farm crop output. Removing inventories from the calculation, the growth rate was a tepid 1.5%. One notable bright spot in the reading was consumer spending, which accounts for more than two-thirds of U.S. economic activity and which increased by 3.2% (its largest increase since the fourth quarter of 2010). Many economists suggest that the disappointing GDP reading will provide further support for the Federal Reserve to maintain its monetary stimulus programs.

Despite economic data that has been signaling the possibility of another spring slowdown and tepid company earnings announcements, the stock market continues to show remarkable resilience as it sits near its all-time high. One of the key drivers of the stock market's success has been companies returning capital to shareholders in the form of dividends and share buybacks. Since the stock market bottom of 2009, the companies of the S&P 500 have contributed $2.1 trillion through dividends and buybacks. During the current earnings period, announcements suggest that companies plan to continue this trend. On Tuesday, Apple announced that it will more than double its program to return cash to shareholders through stock buybacks and a higher dividend, spending $100 billion on the effort through the end of 2015, making it the largest such plan in history.

Market Recap

Funded Pension Ratio versus S&P 500

Source: Public Fund Survey; Center for Retirement Research at Boston College; Blackrock

$1 CEOs Actually Earning Tens of Millions in Compensation

Source: Bloomberg

One issue facing state and local governments has been the underfunding of public pensions and retiree health benefit plans. Despite the equity and bond market rallies, average state funding ratios have declined since the stock market bottom of 2009. Current estimates of total retirement liabilities have ranged from $1 trillion to $3 trillion depending on the discount rate applied. With several local government bankruptcies and rating downgrades in recent years, officials have frequently cited rising pension costs among the culprits. Average state pension funding ratios continue to languish at around 75%. The tepid ratios are the result of, among other things, the underfunding of required pension contributions during the recent recessionary years, just as most asset classes were in full recovery. The total burden of annual required contributions and the failure to fully fund is expected to persist as the operating constraints of states and local governments continue.

Google, Oracle, Hewlett Packard, Capital One, Urban Outfitters, Duke Energy, and Fossil are among the public companies with CEOs earning a salary of one dollar or less. Their meager salaries are not necessarily acts of altruism, nor are they due to company constraints, as many receive additional compensation in the form of bonuses or stock options. Consider Oracle CEO Larry Ellison: his 2012 salary was $1.00, however, he earned total compensation of $96.2 million for the year, including option awards and other extras, making him the most highly-compensated CEO of an S&P 500 company. Typically, CEOs are large shareholders of the companies they lead; this structure aligns their compensation with shareholders' interests and therefore should be appealing to investors. Time will tell if the practice of eliminating the CEO's salary will become even more widespread among large companies.

Contact: If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at www.harbourcapitaladvisors.com.

Disclosure: Harbour Capital Advisors, LLC ("HCA") is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA's current written disclosure statement discussing HCA's business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client's investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA's (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre– and/or after–tax investment results. **CIRCULAR 230 DISCLOSURE: To comply with Treasury Department regulations, we inform you that, unless otherwise expressly indicated, any tax information contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing, or recommending to another party any transaction, arrangement, or other matter.** Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.