



Harbor Bond Fund



William Gross, CFA

4th Quarter, 2011 Commentary

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Harbor Bond Fund outperformed benchmark in Q4

Investment-grade bonds recorded modest returns in the fourth quarter of 2011 against a backdrop of continued uncertainty over the global macroeconomic outlook. The broad taxable U.S. bond market, as measured by the Barclays Capital U.S. Aggregate Bond Index, returned 1.12% for the three months ended December 31, 2011.

The Harbor Bond Fund returned 1.85% for the quarter, outperforming the Barclays Capital Aggregate benchmark. Longer term, the Fund outpaced the index for the 5 years and 10 years ended December 31, 2011. Bill Gross, a managing director of Pacific Investment Management Company (PIMCO), has managed the Harbor Bond Fund since its inception in 1987.

An overweight to U.S. duration, coupled with interest rate exposure in the United Kingdom, Canada, and core Europe, added to Fund returns, the PIMCO team reports. Investments in U.S. agency mortgage-backed instruments, bonds of financial institutions, and securities in Brazil also added value, PIMCO says, while an exposure to Build America Bonds hurt performance relative to the index.

PIMCO's comments were made in a January 18, 2012, interview. Highlights adapted from the interview appear below. All comments relate to the quarter ended December 31, 2011, unless otherwise indicated. All references to year-to-date are for the period January 1 through December 31, 2011.

INTERVIEW HIGHLIGHTS

Macroeconomic weakness

The global macro economy is meaningfully weaker than we thought it was even six months ago. That is primarily because of the impact of the ongoing deleveraging process. We see a huge amount of austerity coming from the fiscal side due to a combination of government pull backs and private sector deleveraging. We expect volatility and policy actions, particularly in Europe but certainly all over the developed world, to have meaningful impacts on growth.

Duration positioning

We're going to be overweight duration, as we view the risk of a disorderly outcome in Europe to be significant. We think the best places with high quality duration are the U.S., Canada, and Australia in the developed world and Brazil and Mexico within the emerging markets. We think it's important to be on the best balance sheets possible.

Risk/return dynamics

We like agency mortgages. We think they're an important source of high quality yield. Valuations are fair and the risk/return dynamics are very attractive relative to lower-yielding cash and increasingly risky credits on the corporate side.

Currency strategy

Currency positions will be a very minor part of the portfolio. Over the last couple of years we've had more of an underweight to the U.S. Dollar, but our need to have a high degree of safety and benefit from any flight to quality causes us to reduce that position and be much more defensive.



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Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Gross
Harbor Bond Fund - INST	1.85%	3.48%	8.34%	7.39%	6.46%	0.55%	0.57%
Barclays Capital U.S. Aggregate Bond Index	1.12%	7.84%	6.77%	6.50%	5.78%		

As of 12/31/2011, the Harbor Bond Fund had invested the following percentages of its assets in the sectors listed: Mortgage Pass-through, 43.22%; Corporate Bonds & Notes, 29.37%; U.S. Government Obligations, 27.19%; Foreign Government Obligations, 7.35%; Municipal Bonds, 4.64%; Collateralized Mortgage Obligations, 3.55%; Asset-backed Securities, 1.18%; Certificates Of Deposit, 0.50%; U.S. Government Agencies, 0.49%; Bank Loan Obligations, 0.25%; Preferred Stocks, 0.18%; Options, 0.01%; Rights/warrants, 0.00%;

Performance data shown represents past performance, which is no guarantee of future results. Current performance may be higher or lower than the past performance data shown. Investment returns and the value of an investment will fluctuate, and an investor's shares, when sold, may be worth more or less than their original cost. You can obtain performance data current to the most recent month-end (available within seven business days after the most recent month-end) by calling 800-422-1050 or visiting www.harborfunds.com.

Investors should carefully consider the Fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus for this and other information about the Fund, visit harborfunds.com or call 800-422-1050. Read it carefully before investing.

The Harbor Funds performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualized. From time to time, certain fees and/or expenses have been voluntarily waived, which has resulted in higher returns. Without these waivers, the returns would have been lower. Voluntary waivers may be applied or discontinued at any time without notice. The Harbor Funds are no-load; other fees and expenses do apply to a continued investment in the Funds and are described in each Fund's current prospectus.

Fixed income investments are affected by interest rate changes and the creditworthiness of the issues held by the Fund. As interest rates rise, the values of fixed income securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio. The use of derivative instruments may add additional risk. There may be a greater risk that the Fund could lose money due to prepayment and extension risks because the Fund invests heavily at times in mortgage-related and/or asset backed securities. The Fund may engage in active and frequent trading to achieve its principal investment strategies.

About Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Net expense ratios reflect adjustments due to voluntary or contractual fee waivers or expense reimbursements. Expense ratio information is as of the Fund's current prospectus, as revised and supplemented from time to time. The net expense ratios for this Fund reflect a contractual management fee waiver until 02/29/2012.

Performance figures discussed in any of the Manager Commentaries reflect that of the Institutional Class shares.

This information should not be considered as a recommendation to purchase or sell a particular security and the holdings or sectors mentioned may change at any time and may not represent current or future investments.

The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index of investment-grade fixed-rate debt issues with maturities of at least one year. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The views expressed herein are those of the portfolio managers at the time of the interview and may not be reflective of their current opinions or future actions. These views are not necessarily those of the fund company and should not be construed as such.

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