Harbor Capital Appreciation Fund

Spiros "Sig" Segalas

4th Quarter, 2011 Commentary

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Q4 rally lifts large caps into positive territory for 2011

Large cap U.S. equities finished a turbulent 2011 in positive territory, thanks to a year-end rally. The Standard & Poor's 500 Index registered returns of 11.82% for the fourth quarter and 2.11% for the full year, while the Russell 1000® Growth Index of large cap growth stocks gained 10.61% for the quarter and 2.64% for the year. U.S. mid cap and small cap stocks also rallied in the fourth quarter but both groups ended up losing ground for the full year.

With a portfolio focused primarily on large cap growth stocks, the Harbor Capital Appreciation Fund returned 7.11% for the fourth quarter and 0.61% for the 12 months ended December 31, 2011. Portfolio Manager Sig Segalas reports that Amazon, Salesforce.com, Oracle, and Illumina were among the most significant detractors from performance in the quarter, while leading contributors included Google, Starbucks, MasterCard, Estée Lauder, and Monsanto.

Segalas expresses cautious optimism about the outlook for 2012. He cites attractive equity valuations and a gradually improving economic picture in the U.S.

Sig Segalas'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

Cautious optimism
Last year was very volatile and I'm glad we're in 2012. We are cautiously positive as we enter this year. In the fourth quarter, economists started feeling a little better about the U.S. economy, even though Europe was still having serious problems and most pundits right now would say Europe is in recession.

Upside surprise
What gives me some confidence is the valuation of the equity market, particularly versus other investment vehicles. The S&P 500 is selling close to 12x earnings, which I think is near a historic low. Profits this year will not grow as fast as they have in the recent past. My guess is they'll be up high single-digits instead of double-digits as we've seen recently. But with the valuation support I think the market is quite cheap. I think we could be surprised on the upside.

Taking profits
We cut back on a couple of names during the fourth quarter. We took some nice profits out of IBM. It's still an important holding in the portfolio but the stock had done very well and had a nice multiple expansion. We trimmed our exposure a bit although we still think it's going to do well.

Volatile situation
People are feeling a little more comfortable about Europe but it's still a volatile situation. Europe is in a recession and it's important that some of the policies they're implementing take hold and that gradually, by the end of the year, Europe is able to come out of this difficult period.

Increasing dividends
Balance sheets are very strong and cash flows are at record highs, so I would expect a number of companies to continue to increase dividends in 2012. I think within a year or so we may very well see Apple pay its first dividend. The company is generating a lot of cash and I wouldn't be surprised to see Apple start paying a reasonable dividend.

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Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Capital Appreciation Fund - INST	7.11%	0.61%	16.79%	2.37%	2.63%	0.67%	0.68%
Russell 1000® Growth Index	10.61%	2.64%	18.02%	2.50%	2.60%		
S&P 500 Index	11.82%	2.11%	14.11%	-0.25%	2.92%		

As of 12/31/2011, the Harbor Capital Appreciation Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 32.36%; Consumer Discretionary, 23.82%; Health Care, 14.03%; Energy, 7.20%; Industrials, 6.86%; Consumer Staples, 6.33%; Materials, 2.80%; Financials, 2.79%; Telecommunication Services, 2.06%;

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.

Since the Fund may hold foreign securities, it may be subject to greater risks than funds invested only in the U.S. These risks are more severe for securities of issuers in emerging market regions.

Over time, a growth oriented investing style may go in and out of favor, which may cause the Fund to sometimes underperform other equity funds that use different investing styles.

Equity securities, such as common stocks, are affected by company specific events and by movements in the overall stock markets in which those securities principally trade. An adverse company specific event, or downturn in those stock markets, can depress the value of a particular company's equity securities.

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. As of 12/31/2011, the Harbor Capital Appreciation Fund held the following positions referenced as a percentage of the Fund's total net assets: Apple Inc. - 5.99%, Amazon.com Inc. - 3.49%, Google Inc. - 3.03%, MasterCard Inc. - 2.70%, Starbucks Corp. - 2.49%, International Business Machines Corporation - 2.43%, Monsanto Company - 2.07%, Oracle Corp. - 1.87%, Salesforce.com Inc. - 1.75%, Estée Lauder Companies Inc. - 1.70%, Illumina Inc. - 0.48%.

The Russell 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. The Standard & Poors 500 Index is an unmanaged index generally representative of the U.S. stock market. The unmanaged indices do not reflect fees and expenses and are not available for direct investment. The Russell 1000® Growth Index and Russell® are trademarks of Russell Investments.

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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