



Harbor Commodity Real Return Strategy Fund



Mihir Worah

4th Quarter, 2011 Commentary

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Commodities post double-digit decline for 2011

Commodities managed a barely-positive increase in the fourth quarter of 2011 but posted a sharp decline for the full year. The Dow Jones-UBS Commodity Index, an unmanaged index of futures contracts on 19 physical commodities, recorded a gain of 0.35% for the three months ended December 31, 2011, and a full year loss of -13.32%.

The Harbor Commodity Real Return Strategy Fund outperformed the index in both periods. The Fund gained 2.12% for the quarter and registered a negative return of -7.66% for the year. The Fund invests in commodity-linked derivative instruments backed by a portfolio of inflation-indexed securities and other fixed income instruments. The Fund is managed by Mihir Worah, an executive vice president of Pacific Investment Management Company (PIMCO).

Higher corn, wheat, and crude oil prices help boost the commodity index in the fourth quarter, while weakness in sugar and natural gas markets weighed on the benchmark's returns, PIMCO reports. An underweighted position in U.S. Treasury inflation-protected securities (TIPS) and exposure to non-agency mortgage-backed securities hurt Fund performance in the quarter, PIMCO says, while portfolio returns benefited from investments in bonds of financial institutions, emerging markets debt, and inflation-linked securities in Australia and Canada.

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

Wider exposure to real yields

U.S. rates have rallied a lot, particularly in the second half of 2011. So you get to a point where you look to diversify into countries that have higher starting real yields as well as the potential for real yield compression, both of which are more limited right now in the U.S. Our ability to use non-U.S. inflation-linked bonds is something we think is going to be a positive in 2012.

Muted growth expected

Over the cyclical horizon, we think that deleveraging and austerity are going to be dominant factors affecting world economies. Because of that, we need to be very careful about where we peg the level of real growth in the developed world. Currently, we're expecting real growth in the developed world to be between 1% and 1.5%. That's a fairly low number.

Benign inflation outlook

We expect a slower rate of growth in China, although we see more of a slight slowdown than a hard landing. What this means is that global inflation will probably also slow down to 1.75% to 2.25% globally. Barring any kind of supply disruptions, we expect inflation to be generally lower in 2012 than it was in 2011.

Defensive posture

We are going to maintain a defensive position because we think the European sovereign debt crisis continues to be a risk to the global economy. We think there is a higher risk of default and



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that is something that forces us to be defensive in our interest rate strategies and in where we find yield.

Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Since Inception (09/02/2008)	Expense Ratios Net	Expense Ratios Gross
Harbor Commodity Real Return Strategy Fund - INST	2.12%	-7.66%	14.21%	N/A	-3.40%	0.94%	1.13%
Dow Jones-UBS Commodity Index Total Return(SM)	0.35%	-13.32%	6.39%	N/A	-8.45%		

As of 12/31/2011, the Harbor Commodity Real Return Strategy Fund had invested the following percentages of its assets in the sectors listed: U.S. Government Obligations, 89.04%; Corporate Bonds & Notes, 18.21%; Asset-backed Securities, 10.05%; Foreign Government Obligations, 5.65%; Collateralized Mortgage Obligations, 4.05%; Mortgage Pass-through, 1.82%; Bank Loan Obligations, 0.93%; Options, 0.10%;

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.

The Fund invests in commodity-linked instruments, which may be significantly more volatile than other securities. The Fund will seek to gain exposure to the commodity markets primarily through investments in leveraged or unleveraged commodity index-linked notes and through investments in the Harbor Cayman Commodity Fund Ltd., a wholly-owned subsidiary of the Fund. 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. The Fund is non-diversified, which means that it may concentrate its assets in a smaller number of issuers, making it more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio. 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. The Fund charges a redemption fee of 2.00% on redemption of shares that are held for less than 30 days.

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 ratio reflected is contractual 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 Dow Jones-UBS Commodity Index Total Return(SM) is composed of futures contracts on 19 physical commodities. 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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