



Harbor Convertible Securities Fund



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2nd Quarter, 2017 Commentary

"We believe the transition from monetary to fiscal stimulus could enhance opportunities in the convertible securities market." -Shenkman Capital Management, Inc.

The U.S. convertible securities market moved higher

The macroeconomic changes that we saw developing in the fourth quarter of 2016 have continued to play out thus far in 2017. The unexpected result of the U.S. presidential election brought about anticipation of a more business-friendly environment for U.S. companies, with a consequent boost to the economy. The Federal Reserve's (Fed's) decision to re-initiate a gradual rise in interest rates signaled a shift from a multi-year dependence on monetary stimulus to a greater focus on the outlook for growth through fiscal policy.

In this environment, the Harbor Convertible Securities Fund posted a return of 2.04% for the second quarter of 2017, underperforming its benchmark, the BofA Merrill Lynch All US Convertibles Ex Mandatory Index, which returned 2.98%. The broad stock market, as measured by the S&P 500 Index, returned 3.09%. Investment-grade bonds, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, posted a return of 1.45%. The Fund invests primarily in convertible bonds, which can be converted into common stock at a predetermined price.

Shenkman Capital Management's comments were made in a July, 2017 report. Highlights adapted from the report appear below. All comments relate to the quarter ended June 30, 2017, unless otherwise indicated. All references to the year-to-date are for the period January 1 through June 30, 2017.

HIGHLIGHTS

The Post-Election Rally Resumed in the Second Quarter

After a brief hiatus from March through mid-April, the post-election rally, buoyed by a strong earnings season for the first quarter of the year, resumed in the second quarter. During the quarter, equity performance was led by continued strength in the market's two largest sectors: Health Care and Information Technology. Conversely, the Energy sector declined along with oil prices. Convertible securities with the most equity-like characteristics contributed significantly to the convertible securities market's performance. As a matter of style, we tend to underweight or avoid convertibles of this type, as they have little to no bond characteristics and are closely correlated with equity risk and volatility.

We Continued to Position the Portfolio for a Growth Environment

The Fed's decision to raise interest rates in June was well discounted by the markets ahead of time and had no material impact on the portfolio. We intend to continue to position the portfolio for a growth environment, with a focus on Information Technology and Health Care, the two main sectors of the convertible securities market.

We Saw Strength in New Issue Activity

During the second quarter, we saw continued strength in new issue activity. The strong new issue environment gave us ample opportunity to further diversify the portfolio through selective purchases. In addition, we added positions from the secondary market, which remained relatively liquid.



Harbor Convertible Securities Fund

We Are Cautiously Optimistic

We believe the transition from monetary to fiscal stimulus could enhance opportunities in the convertible securities market. Looking forward, we believe prospects for convertible securities appear positive for several reasons: a growth-oriented equity environment, positive overall credit conditions, historical non-correlation to rising Treasury rates, and increased new issue activity. If we enter a period of higher interest rates, with associated periods of volatility, we believe the market is likely to favor more balanced convertible securities with a positive credit profile, placing a premium on downside protection.

Total Returns

As of 06/30/2017

	Three Months	One Year	Three Years	Five Years	Since Inception (05/01/2011)	Expense Ratios Net	Expense Ratios Gross
Harbor Convertible Securities Fund - INST	2.04%	9.85%	2.46%	6.07%	4.83%	0.73%	0.78%
BofA Merrill Lynch All US Convertibles Ex Mandatory Index	2.98%	19.86%	5.60%	11.56%	8.57%		

Sectors: As of 06/30/2017, the Harbor Convertible Securities Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 37.25%; Health Care, 15.17%; Consumer Discretionary, 14.44%; Industrials, 8.98%; Financials, 6.24%; Energy, 4.52%; Real Estate, 4.24%; Materials, 2.55%; Utilities, 2.20%; Telecommunication Services, 1.12%;

Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at www.harborfunds.com or by calling 800-422-1050.

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. The holdings or sectors mentioned may change at any time and may not represent current or future investments.

The Fund charges a redemption fee of 1.00% on redemption of shares that are held for less than 90 days.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund reflect a contractual management fee waiver through 02/28/2018.

The BofA Merrill Lynch All US Convertibles Ex Mandatory Index is broadly representative of the U.S. convertible securities market, consisting of publicly traded issues, denominated in U.S. dollars, of all credit qualities, and excluding mandatory (equity-linked) convertibles. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Convertible securities generally tend to be of lower credit quality and the value of a convertible security generally increases and decreases with the value of the underlying common stock, but may also be sensitive to changes in interest rates. As interest rates rise, the values of convertible securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio. Credit risk is higher for the Fund because it invests primarily in convertible securities of companies with debt rated below investment grade. High yield investing poses additional credit risk related to lower-rated bonds.

The views expressed herein are those of the subadviser, Shenkman Capital Management, Inc., and may not be reflective of their current opinions or future actions. These views are not necessarily those of Harbor Funds and should not be construed as such.

Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. A summary prospectus or prospectus for this and other information is available at www.harborfunds.com or by calling 800-422-1050. Read it carefully before investing.

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