Harbor International Fund

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4th Quarter, 2011 Commentary

"The volatility in the market has helped us add some strong global franchises." -Scott Babka

Investment team sees mixed macro outlook for 2012

Investors face a mixed macroeconomic picture in the year ahead, in the views of Portfolio Manager Ted Wendell and Senior Analyst Scott Babka of the Harbor International Fund. Although Europe continues to struggle with sovereign debt issues, they believe that China and the emerging markets will remain the leading source of global growth and that sluggish economic recovery will continue in the U.S.

After a sharp drop in the third quarter, international stocks managed a modest gain in the fourth, with the MSCI EAFE (ND) Index posting a return of 3.33%. For the full year, however, the index was down -12.14%. The Harbor International Fund outperformed the MSCI EAFE benchmark for both periods, registering returns of 7.35% for the fourth quarter and -11.13% for the year. From a longer-term perspective, the Fund continued to outpace the benchmark by substantial margins for the 5-year and 10-year periods ended December 31, 2011.

Wendell and Babka report that stock market weakness enabled the Fund to add quality names to the portfolio in 2011. They note that the investment team's focus is on companies with leading positions in growing global markets.

The comments by Ted Wendell and Scott Babka were made in a January 11, 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

Portfolio moves
In the fourth quarter we bought Toyota, sold Banco Santander, and reduced our exposure to A.P. Moller - Maersk. You're seeing a company coming into the portfolio that reflects our view on the continuing recovery in the U.S. On the sell side you see the exiting of a European-based financial and also the selling down of a company that benefits from shipping goods to Europe, which continues to face economic headwinds.

Global franchises
The volatility in the market has helped us add some strong global franchises. In addition to Toyota, I would include SAP, Rolls-Royce, and Taiwan Semiconductor. We think these are good examples of sticking to our philosophy of buying market leaders that have pricing power and are operating in consolidating markets.

Factory automation
On a recent visit to China, we toured a number of factories that are doing well but facing inflation pressures. These can be offset at least in part through improved automation and operating efficiencies, which we think plays to the strength of a number of companies in the portfolio, such as ABB, Fanuc, Atlas Copco, Sandvik, and Schneider. These are companies with great management, strong pricing power, high barriers to entry, and already-dominant market shares in China and emerging markets. Most of them are domiciled in Europe but even under a worst-case scenario these are 3% or 4% dividend-yielding companies that we feel confident in holding.

Demand for raw materials
We're still strong on the Materials group. The third largest company we own is Atlas Copco, not directly a mining company but one that sells to the mining industry. Part of our theme is that growth is still happening in China and that the demand for raw materials such as iron ore and copper is still strong.

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Improving margins

Toyota is a stock we've owned in the past. It has fallen out of favor since we sold it because of weakness in the U.S. auto market, problems with recalls, and dislocations resulting from the earthquake in Japan. Upon evaluation, however, we don't think the franchise is broken. This is still a leader in terms of technology and global scale. We expect to see a big improvement in operating margins over the next few years, which is not reflected in the share price today.

Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor International Fund - INST	7.35%	-11.13%	11.31%	-0.75%	9.17%	0.79%	0.80%
MSCI EAFE (ND) Index	3.33%	-12.14%	7.65%	-4.72%	4.67%		

As of 12/31/2011, the Harbor International Fund had invested the following percentages of its assets in the sectors listed: Consumer Staples, 19.01%; Financials, 18.31%; Industrials, 15.23%; Materials, 13.26%; Health Care, 8.45%; Energy, 8.34%; Consumer Discretionary, 6.92%; Information Technology, 4.52%; Telecommunication Services, 2.82%;

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.

Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. 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 60 days.

Over time, a value 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 International Fund held the following positions referenced as a percentage of the Fund's total net assets: Atlas Copco AB - 2.78%, Fanuc Corporation - 2.36%, Schneider Electric SA - 1.71%, ABB Ltd. - 1.49%, SAP AG - 1.41%, Rolls-Royce Holdings plc - 1.38%, Sandvik AB - 1.30%, Toyota Motor Corp. - 1.16%, Taiwan Semiconductor Manufacturing Co. Ltd. - 1.12%, A.P. Moller - Maersk AS - 0.15%, Banco Santander SA - 0.00%.

The MSCI EAFE (ND) Index is an unmanaged index generally representative of major overseas stock markets. 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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