



Harbor Funds

Individual Retirement Accounts

Disclosure Statement
& Custodial Agreement



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TRADITIONAL vs ROTH

CHARACTERISTIC	TRADITIONAL IRA	ROTH IRA
INDIVIDUAL ANNUAL CONTRIBUTION LIMIT	100% of earned income, up to \$5,000 (\$6,000 if you are age 50 or older)	100% of earned income, up to \$5,000 (\$6,000 if you are age 50 or older)
SPOUSAL CONTRIBUTIONS	Allowed if married filing jointly, generally up to \$5,000 each	Allowed if married filing jointly, generally up to \$5,000 each
FEDERAL INCOME TAX CONTRIBUTION DEDUCTIBILITY	Yes, subject to certain limitations	None
CONTRIBUTION DEADLINE	Individual's tax filing deadline, not including extensions	Individual's tax filing deadline, not including extensions
MINIMUM AGE FOR CONTRIBUTIONS	None	None
MAXIMUM AGE FOR CONTRIBUTIONS	Tax-year contributions may be made only for years before age 70½ year	None
REQUIRED MINIMUM DISTRIBUTIONS	Distributions must begin the year in which you turn 70½	None
FEDERAL INCOME TAX TREATMENT OF DISTRIBUTIONS	Taxable, except for non-deductible contributions	Tax-free if a qualified distribution

GETTING STARTED

To establish an IRA, complete the Harbor Funds IRA Adoption Agreement. Remember, you may transfer all or part of the amount you have in an existing IRA at another mutual fund or financial institution to Harbor Funds by completing the IRA Transfer Form. Transfers are not considered distributions and are not taxed or penalized. Please call **1-800-422-1050** to request an IRA Adoption Agreement and an IRA Transfer Form or you may download these from our web site at ***www.harborfunds.com***.

ANSWERS TO FREQUENTLY ASKED QUESTIONS

WHO IS ELIGIBLE?

Traditional: Anyone under age 70½ who has earned income. Married couples can establish a separate account for a non-earning spouse. Married couples filing separately are not entitled to make a spousal contribution to a Traditional IRA.

Roth: Anyone with earned income and any non-earning spouse of a person with earned income. A single taxpayer with modified adjusted gross income (MAGI) of \$101,000 or less can make a full contribution of \$5,000. The maximum contribution declines as MAGI increases. A single taxpayer with MAGI over \$116,000 is not eligible to make a Roth IRA contribution. Married taxpayers filing jointly can make a full contribution of \$5,000 for each spouse if their MAGI is \$159,000 or less. They may make a partial contribution if their MAGI is between \$159,000 and \$169,000. If their MAGI is above \$169,000, they are not eligible. Married taxpayers filing separately cannot contribute to a Roth IRA if their MAGI is over \$10,000, unless they are not living together during the tax year.

WHAT IS THE CONTRIBUTION LIMIT?

The contribution limit applies to all IRAs combined. The contribution limit is 100% of earned income, up to \$5,000 for a single taxpayer and 100% of combined earned income, up to \$5,000 for each spouse for married taxpayers filing jointly. You may allocate your \$5,000 IRA contribution between a Traditional IRA and a Roth IRA. You may make an additional \$1,000 annual contribution if you are age 50 or over.

ARE MY CONTRIBUTIONS TAX DEDUCTIBLE?

Traditional: They are fully deductible if neither spouse is an active participant in a retirement plan. If you are single and an active participant, deductibility is phased out. If you are married filing jointly and only one spouse is an active participant, deductibility of your contributions is phased out. You must make your contribution by the due date for filing your federal tax return for the year of your deduction, generally April 15th.

Roth: No.

HOW DO I DETERMINE MY OR MY SPOUSE'S "ACTIVE PARTICIPANT" STATUS?

Your (or your spouse's) Form W-2 should indicate whether you (or your spouse) were an active participant in an employer-sponsored retirement plan during the year. If you have questions, please consult your employer or the plan administrator.

DO I PAY TAXES ON MY EARNINGS IN THE IRA?

Traditional: Yes, but only when you take a distribution. However, if removing non-deductible contributions, these may be tax-exempt.

Roth: Not at all, if your distributions are "qualified" (taken after the five taxable year period beginning with the year for which you first contributed to the Roth IRA, and taken (1) after age 59½; (2) by reason of your death or disability; or (3) to pay qualifying first-time homeowner expenses). Earnings are taxable when distributed if the distribution is not qualified.

ARE DISTRIBUTIONS TAXABLE?

Traditional: All earnings and deductible contributions are subject to regular income tax when distributed. Distributions before age 59½ are also subject to an additional 10% penalty on early distributions, unless an exception applies. Some of those exceptions include death, disability, qualified higher education expenses, qualified medical care expenses, rollovers and transfers. Non-deductible contributions may be tax exempt.

Roth: All contributions are distributed before earnings begin to be distributed. If a distribution of earnings is "qualified," there will be no federal tax or penalty. If a distribution of earnings is not "qualified," it will be subject to regular income tax, and also will be subject to the additional 10% penalty on early distributions unless an exception applies. The contribution is withdrawn tax-free regardless of whether the distribution is qualified or non-qualified.

CAN I ROLLOVER AMOUNTS FROM ANOTHER RETIREMENT PLAN?

Traditional: You may rollover amounts held in employer-sponsored retirement arrangements, such as 401(k) plans and SEP IRAs, tax free into a Traditional IRA.

Roth: You may convert amounts from Traditional IRAs, SEP IRAs or SIMPLE IRAs into a Roth IRA. Certain amounts converted may be subject to income tax. Those amounts will be taxed in the year converted. Beginning in 2008, amounts from qualified retirement plans, tax-sheltered annuities and governmental Section 457 deferred compensation plans, may be rolled over to Roth IRAs, subject to the same restrictions governing conversions from Traditional IRAs to Roth IRAs.

CAN I NAME MORE THAN ONE PRIMARY BENEFICIARY?

Traditional & Roth: You may name multiple primary beneficiaries. Each beneficiary will receive an equal percentage of the decedent's IRA balance, unless other percentages are specified.

CAN I NAME A CONTINGENT BENEFICIARY?

You may name contingent beneficiaries. However, they will not receive a share of the decedent's IRA unless all of the primary beneficiaries are deceased or have waived their interest.

CAN I TREAT A DEDUCTIBLE CONTRIBUTION AS A NON-DEDUCTIBLE CONTRIBUTION?

Traditional: Yes, you may do this by filing IRS Form 8606 with your federal income tax return.

Roth: Deductible contributions do not apply to Roth IRAs. All contributions are non-deductible.

IF I WITHDRAW MORE THAN THE REQUIRED MINIMUM DISTRIBUTION, CAN THE EXCESS AMOUNT BE APPLIED TO REDUCE THE REQUIRED DISTRIBUTION FOR THE NEXT YEAR?

Traditional: No.

Roth: There are no required minimum distributions.

WHICH IRA IS BETTER FOR ME?

For certain taxpayers, the Traditional IRA may be more attractive than a Roth IRA. Among these are:

- Those who want a current tax deduction; or
- Those with higher income levels who are ineligible to make a Roth IRA contribution but want to take advantage of tax deferred earnings on retirement investments, even if a tax deduction for the Traditional IRA contribution is unavailable.

For others, the benefits of a Roth IRA outweigh a Traditional IRA. Among these are:

- Those who would be financially hurt by being forced to begin distributions from a Traditional IRA at age 70 ½;
- Younger workers who can benefit from many years of tax-free earnings; or
- Those who cannot deduct the contribution to a Traditional IRA.

However, your current and expected future tax brackets and the anticipated size of your estate at retirement will impact your decision. For example, if you expect to be in a lower tax bracket after retirement, you may be able to claim a deduction on a contribution to a Traditional IRA now and then pay taxes on the distributions at a lower tax rate in the future.

Everyone must evaluate the two IRAs carefully, taking into consideration such factors as age, anticipated future earnings, tax situation and personal preferences. Also, state tax laws vary from state to state and may differ from federal tax laws. Consult your tax adviser for more information.

TRADITIONAL IRA DISCLOSURE STATEMENT

This Traditional IRA Disclosure Statement is provided in accordance with Internal Revenue Service (IRS) regulations. Please read the following information together with the Traditional IRA Custodial Agreement and the Harbor Funds Prospectus for the fund(s) you select for your Traditional IRA investments.

I. YOUR HARBOR FUNDS TRADITIONAL IRA

A Traditional IRA is an individual retirement account to which you, under certain circumstances, may make tax-deductible contributions. Income taxes are not payable on the earnings in the account until the funds are withdrawn from the account.

Your Harbor Funds Traditional IRA is a custodial account governed by the terms of the Harbor Funds Distributors, Inc. Custodial Agreement (“Custodial Agreement”). The Custodial Agreement complies with all statutory requirements, including the following:

- Your Traditional IRA is established with a qualified custodian. State Street Bank and Trust Company is the Custodian.
- All contributions to your Traditional IRA must be made in cash.
- No part of your Traditional IRA may be invested in life insurance contracts or certain collectibles (works of art, rugs, antiques, metals or gems, stamps or coins, alcoholic beverages and certain other property specified by the IRS), other than certain coins and bullion.
- The balance in your account is nonforfeitable at all times.
- Your Traditional IRA assets will be maintained by the Custodian in a separate account and will not be commingled with the assets of any other investor.
- Your Traditional IRA must comply with certain provisions of the Internal Revenue Code requiring distributions before certain dates or after your death.

II. POWER TO REVOKE

For a period of seven (7) days following the date on which you enter into a Traditional IRA Custodial Agreement with Harbor Funds Distributors, Inc., you have the right to revoke your Traditional IRA. To revoke your Traditional IRA, you must mail or deliver your written revocation to Harbor Funds Distributors, Inc., c/o Harbor Services Group, Inc., P.O. Box 804660, Chicago, IL 60680-4108. If your revocation is mailed, the date of the postmark (or the date of certifi-

cation or registration if sent by certified or registered mail) will be considered your revocation date, provided the letter is deposited in the U. S. Postal Service, first-class postage prepaid, properly addressed. If you revoke your Traditional IRA during the seven (7) day period, you are entitled to a return of the entire amount deposited to your Traditional IRA without reduction for any fees or expenses and without adjustment for any investment gain or loss.

III. ELIGIBILITY

You can establish and make contributions to a Traditional IRA if you (or, if you file a joint return, your spouse) received taxable compensation during the year and you will not have attained age 70½ by the end of the year for which a contribution is being made.

For purposes of your IRA contribution limits, your compensation includes all wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services, and any earned income from self-employment. Your compensation also includes any taxable alimony or separate maintenance payments you may receive under a decree of divorce or separate maintenance. It does not include earnings and profits from property such as dividends, interest, capital gains, amounts received as a pension or annuity, or as deferred compensation.

If you are a member of the armed forces and serve in a combat zone, your compensation includes tax-free combat pay for purposes of determining your eligibility to contribute to a Traditional IRA. In addition, if you received tax-free combat pay in 2004 or 2005, you may be eligible to make Traditional IRA contributions for those years. You may be eligible to make these additional contributions until May 28, 2009. You should consult with your tax advisor to determine whether you qualify to make these special contributions.

IV. TYPES OF CONTRIBUTIONS

You may make regular, spousal, catch-up, and employee SEP contributions to your Traditional IRA at any time during the calendar year up to and including April 15th (or the next business day if the 15th is on a weekend) of the following year. Employer SEP contributions must be made by the business' tax return deadline, including extensions. You may make a single contribution or periodic contributions. You are not required to contribute to your Traditional IRA each year.

Regular, spousal, catch-up, or SEP contributions cannot be made to your Traditional IRA for the year in which you reach age 70½ or for any year thereafter.

You must tell us the tax year for which each contribution is made. If you do not tell us a year, we will assume the contribution is for the tax year in which it is received. For example, if you send a contribution on February 14, 2008, we will assume it is a contribution for 2008 unless you tell us that it is a contribution for the prior year, 2007.

It is your responsibility to make sure that the amount you contribute to this Traditional IRA and to any other IRAs that you have is not greater than the limits established by the IRS.

The types of contributions that may be made to your Traditional IRA are described below.

1. REGULAR CONTRIBUTIONS

You may contribute an amount equal to your compensation or the amount shown below opposite the calendar year, whichever amount is less. Your total annual contributions for any one tax year, including contributions you make to Roth IRAs, cannot exceed these limits.

Contribution Limits	
Year	Maximum Contribution
2007	\$4,000
2008	\$5,000
2009	*
2010	*

* Subject to cost-of-living adjustment

2. SPOUSAL CONTRIBUTIONS

A Traditional IRA for your spouse does not involve the creation of a joint account. Each account is separately owned and treated independently from the account of the other. Each spouse is subject to all the rules and regulations governing the Traditional IRA established in his or her name.

Spousal contributions may be made to your or your spouse's Traditional IRA if you and your spouse were legally married on December 31 of the year for which the contribution is made. You must also file a joint federal income tax return for the tax year in which the contribution is being made.

You must be under age 70½ during the entire year to receive a spousal contribution on your behalf for that year. You may make a spousal contribution on behalf of your spouse, even if you are age 70½ or older, so long as your spouse is under age 70½.

3. CATCH-UP CONTRIBUTIONS

If you are age 50 before the end of the taxable year, you may make a catch-up contribution each year, in addition to your annual contribution.

Catch-Up Contribution Limits	
Year	Catch-Up Contribution
2007	\$1,000
2008	\$1,000
2009	\$1,000
2010	\$1,000

4. ROLLOVER CONTRIBUTIONS

A rollover contribution consists of assets distributed from a Traditional IRA or a tax-qualified retirement plan and that satisfies the requirements of section 402(c), 403(a)(4), 403(b)(8), or 408(d)(3) of the Code.

At the time you make a proper rollover to a Traditional IRA, you must designate to the Custodian, in writing, your election to treat that contribution as a rollover. Once made, the rollover election is irrevocable. Rollovers are limited to one per 365 days for each IRA. In contrast, a direct rollover (also referred to as a transfer) of Traditional IRA assets from one Custodian to another Custodian can be done as many times as you wish during the year.

Rollover contributions may be made at any time, even if you are over the age of 70½.

Traditional IRA to Traditional IRA Rollover. If you receive a distribution from one Traditional IRA, you can rollover all or part of it into another Traditional IRA within 60 days from the date in which you received the distribution.

Rollover from a SIMPLE IRA. You may rollover assets held in a Savings Incentive Match Plan for Employees (SIMPLE) IRA to your Traditional IRA. To qualify as a tax-free rollover to a Traditional IRA, a rollover distribution cannot be made prior to the two-year period beginning on the date on which you first participated in your employer's SIMPLE plan. The two-year period begins on the first day on which contributions made by your employer are deposited in your SIMPLE IRA.

Rollover from a QRP. If you receive an eligible rollover distribution from your employer's qualified retirement plan ("QRP") or 403(b) annuity or custodial account ("403(b) Plan") or from a 457 governmental plan

(“457 Plan”), you can rollover all or part of it into a Traditional IRA within 60 days of the distribution. If you receive an eligible rollover from a QRP, 403(b) Plan or 457 Plan and rollover all or part of it into one or more Traditional IRAs, you can later rollover those assets into a new employer’s QRP, 403(b) Plan, or 457 Plan, as the case may be. If the receiving plan is a 457 Plan, it must agree to separately account for the amounts rolled over from plans other than 457 Plans. After-tax contributions from a qualified plan are permitted to be rolled over to a Traditional IRA. However, after-tax contributions in an IRA (including those rolled from a qualified plan and nondeductible contributions to an IRA) are not permitted to be rolled over from the IRA to a qualified plan, 403(b) Plan, or 457 Plan. Certain special tax treatments from QRPs, such as capital gains and 10-year income averaging treatment, will be preserved only if the QRP assets are rolled over into a conduit IRA, and then later rolled back into a QRP. Therefore, individuals who qualify for capital gains or 10-year income averaging (i.e., generally those born before 1936) will lose the favorable tax treatments unless the QRP funds are rolled over into a conduit IRA. A conduit IRA is a Traditional IRA that consists only of assets that were rolled over from a QRP or 403(b) Plan plus the earnings from those assets.

A surviving spouse, and beginning in 2007 a non-spouse beneficiary, may also roll over eligible distributions to a Traditional IRA from a QRP, a 403(b) plan or a 457(b) Plan.

Qualified plan distributions eligible for rollover treatment are subject to a mandatory 20% federal income tax withholding unless you elect to have them directly rolled over (transferred) into a Traditional IRA (or to another qualified plan). A direct rollover is a direct transfer of funds to a Traditional IRA. If you receive a distribution yourself, you may still rollover the distribution, but the payer of the plan distribution must withhold 20% of the distribution for federal income taxes. The 20% withheld is treated as received by you and is subject to tax unless you obtain other funds to replace the 20% that is withheld and contribute those funds to a Traditional IRA together with the amounts you received. If you rollover only the 80% that you received, you will be taxed on the 20% that was withheld and not rolled over.

5. TRANSFERS

You may transfer assets between like IRAs by directing a custodian or trustee of an existing Traditional IRA to transfer an amount in cash directly to the Custodian to be invested in accordance with this Agreement. Transfers

are generally only permitted between the same type of IRA plans (e.g., Traditional IRA to Traditional IRA). In accepting or making any such direct transfer of assets, the Custodian assumes no responsibility for the tax consequences of the transfer. The Custodian will not be responsible for any losses you may incur as a result of the timing of any transfer from or to another custodian or trustee.

Transfers may be made at any time, even if you are over the age of 70 ½.

Transfers Incident to Divorce. All or any portion of your Traditional IRA may be transferred to a former spouse pursuant to a divorce decree or written instrument incident to divorce as provided in section 408(d)(6) of the Code, in which event the transferred portion of your Traditional IRA shall be held as a separate Traditional IRA for the benefit of such spouse in accordance with the terms and conditions of this Agreement.

6. SIMPLIFIED EMPLOYEE PENSION (SEP) CONTRIBUTION

A Simplified Employee Pension (SEP) is a Traditional IRA that you establish to receive contributions made by your employer under a SEP IRA arrangement that your employer establishes. A SEP contribution may be made on your behalf by your employer under a simplified employee pension plan as described in section 408(k) of the Code. Your employer’s contribution must be in cash. For 2007, SEP contributions are limited to the lesser of \$45,000 per year or 25% of your total compensation. For 2008, SEP contributions are limited to the lesser of \$46,000 per year or 25% of your compensation.

If your employer contributes to a SEP for you, that does not affect the annual contributions that you may make to your Traditional IRA or Roth IRA each year. The amount that you may deduct however, may not be your full contribution as described below.

If you are self-employed, you may be eligible to establish a SEP and make deductible SEP contributions as the employer. In addition, you may make your own regular contributions to your Traditional IRA or Roth IRA each year. In the case of a self-employed individual, the term, “compensation” means your earned income from self-employment, reduced by the amount of deductible retirement plan contributions.

To establish a SEP IRA, Form 5305-SEP must be completed by your employer (or by you if you are a sole proprietor) and a copy enclosed with your completed Harbor Funds Adoption Agreement.

7. TAX REFUNDS

Beginning in 2007, all or a portion of your tax refund may be deposited into your Traditional IRA account, subject to the contribution limits for that year. You must complete and submit Form 8888 to the IRS to direct your tax refund into your Traditional IRA.

8. CATCH-UP CONTRIBUTIONS IN CERTAIN EMPLOYER BANKRUPTCIES

If you participated in a 401(k) plan and the employer who maintained the plan went into bankruptcy, you may be able to contribute an additional \$3,000 to your Traditional IRA. For this to apply, the following conditions must be met:

- You must have been a participant in a 401(k) plan under which the employer matched at least 50% of your contributions to the plan with stock of the company;
- You must have been a participant in the 401(k) plan 6 months before the employer filed for bankruptcy;
- The employer (or a controlling corporation) must have been a debtor in a bankruptcy case in an earlier year; and
- The employer (or any other person) must have been subject to indictment or conviction based on business transactions related to the bankruptcy.

If you choose to make these additional contributions, you cannot use the higher contribution and deduction limits for individuals who are age 50 or older.

V. DEDUCTIBLE CONTRIBUTIONS

While you may make contributions to your Traditional IRA to the limits described above, some or all of your contributions may not be deductible. The deductibility of your regular contributions depends on (a) your tax filing status, (b) your income level and (c) whether you (and in some cases your spouse) are an “active participant” in an “employer-sponsored retirement plan.” An “employer-sponsored retirement plan” is any of the following:

- a qualified pension, profit-sharing, or stock bonus plan established in accordance with IRC 401(a) or 401(k);
- a Simplified Employee Pension Plan (SEP)(IRC 408(k));
- a deferred compensation plan maintained by a governmental unit or agency (IRC 457);
- tax-sheltered annuities and custodial accounts (IRC 403(b) and 403(b)(7));

- a qualified annuity plan under IRC 403(a); or
- a Savings Incentive Match Plan for Employees of Small Employers (SIMPLE Plan).

Generally speaking, you are an “active participant” in a defined contribution plan if an employer contribution or a forfeiture is credited to your account during the year. You are an active participant in a defined benefit plan if you are eligible to participate even though you elect not to participate. You are also an active participant if you make a voluntary or mandatory contribution to any type of plan even if your employer does not make a contribution. For example, you are an active participant if you make an elective compensation deferral to your employer’s 401(k) plan even if your employer does not make a contribution.

1. YOUR DEDUCTION IF YOU ARE NOT MARRIED

If you are not married (or file under the “head of household status”), the following rules apply:

- If you are *not an active participant* in an employer-sponsored retirement plan, your entire contribution to your Traditional IRA is fully deductible up to the limit previously discussed.
- If you are *an active participant* in an employer-sponsored retirement plan, your contribution is fully deductible, partially deductible or not deductible at all, depending upon your MAGI. The following chart shows this:

Year	Eligible to deduct entire contribution if MAGI less than or equal to	Eligible to partially deduct contribution if MAGI between	No deduction if MAGI over
2008 and later . . .	\$53,000	\$53,000-\$63,000	\$63,000

2. YOUR DEDUCTION IF YOU ARE MARRIED

If you are married and you and your spouse file a joint tax return, the following rules apply:

- If *neither you nor your spouse is an active participant* in an employer-sponsored retirement plan, the contributions you and your spouse make to your Traditional IRAs are fully deductible up to the limit previously discussed.
- If *both you and your spouse are active participants* in an employer-sponsored retirement plan, your contributions may be fully deductible, partially deductible or not deductible at all, depending upon your combined

modified adjusted gross income. The following chart shows this:

Year	Eligible to deduct entire contribution if MAGI less than or equal to	Eligible to partially deduct contribution if MAGI between	No deduction if MAGI over
2008 and later . .	\$85,000	\$85,000-\$105,000	\$105,000

- If *you and your spouse file a joint tax return and only one of you is an active participant* in an employer-sponsored retirement plan, special rules apply. If your spouse is the active participant, a fully deductible contribution can be made to your IRA (up to the contribution limits described above) if your combined modified adjusted gross income does not exceed \$159,000. If your combined modified adjusted gross income is between \$159,000 and \$169,000, your deduction will be limited. If your combined modified adjusted gross income exceeds \$169,000, your contribution will not be deductible. Your spouse, as an active participant in an employer-sponsored retirement plan, may make a fully deductible contribution to a Traditional IRA if your 2008 combined modified adjusted gross income does not exceed \$85,000 (with a partial deduction being available if 2008 combined modified adjusted gross income is between \$85,000 and \$105,000). Conversely, if you are an active participant and your spouse is not, a contribution to your Traditional IRA will be deductible if your 2008 combined modified adjusted gross income does not exceed \$85,000 (with a partial deduction being available if 2008 combined modified adjusted gross income is between \$85,000 and \$105,000).
- If you are *married and file a separate return and are not an active participant* in an employer-sponsored retirement plan, you may make a fully deductible contribution to a Traditional IRA (up to the contribution limits described above).
- If you are *married and filing separately and are an active participant* in an employer-sponsored retirement plan, you may not make a fully deductible contribution to a Traditional IRA. A partial deduction is available if your 2008 adjusted gross income is less than \$10,000.

VI. NONDEDUCTIBLE CONTRIBUTIONS

Even if your adjusted gross income exceeds the limit applicable to you as described above, you may make a contribution to your Traditional IRA up to the applicable dollar limit described

above. The portion of your contribution that exceeds the deduction limit will be treated as a nondeductible contribution. Even though you cannot deduct the contribution, you will not be taxed on the income earned on the nondeductible contributions until the time of distribution. You may also elect to treat otherwise deductible contributions as nondeductible. Nondeductible contributions are subject to the same limits as are deductible contributions, including the rule that the maximum amount of a nondeductible contribution is further reduced by the amount of the deductible contribution that you make to your Traditional IRA (and any other Traditional IRA that you may maintain) for that tax year.

If you make nondeductible contributions, you will be required to file IRS Form 8606 with your federal income tax return for the tax year for which you make the designated nondeductible Traditional IRA contribution.

VII. TAX CREDIT FOR CONTRIBUTIONS (SAVER'S CREDIT)

You may be eligible to receive a tax credit. The amount of the Saver's Credit is based on the contributions you make and your credit rate. Your credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. See the following table to determine your credit rate.

2008 Adjusted Gross Income*			
Joint Return	Head of Household	All Other	Credit Rate
Up to \$32,000	Up to \$24,000	Up to \$16,000	50%
\$32,001-\$34,500	\$24,001-\$25,875	\$16,001-\$17,250	20%
\$34,501-\$53,000	\$25,876-\$39,750	\$17,251-\$26,500	10%
Over \$53,000	Over \$39,750	Over \$26,500	0%

* Adjusted gross income includes foreign earned income and income from Guam, American Samoa, North Mariana Islands and Puerto Rico.

The maximum contribution taken into account is \$2,000 per taxpayer. On a joint return, up to \$2,000 is taken into account for each spouse. This credit will be allowed in addition to any tax deduction that may apply, and may not exceed \$1,000 in a given year.

You may be eligible for this tax credit if you are (i) age 18 or older as of the close of the taxable year, (ii) not a dependent of another taxpayer, and (iii) not a full-time student.

In order to determine the amount of your Saver's Credit, you add all of the eligible contributions made to an employer-sponsored retirement plan and IRAs and reduce these contributions by any distributions that you may have taken during the testing period. The testing period consists of the

year for which you claim the credit, the period after the end of that year and before the due date (including extensions) for filing your return for that year, and the two tax years before that year. A distribution that is a return of a contribution to an IRA made during the year for which you claim the credit does not reduce your eligible contributions if (i) the distribution is made before the due date (including extensions) of your tax return for that year, (ii) you do not take a deduction for the contribution, and (iii) the distribution includes any income attributable to the contribution. Any distributions your spouse receives are treated as received by you if you file a joint return for the year of the distribution and for the year for which you claim the credit.

The amount of your Saver's Credit in any year cannot be more than the amount of tax that you would otherwise pay (not taking into account any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope credit, then you will not be entitled to this credit.

VIII. DISTRIBUTIONS FROM YOUR TRADITIONAL IRA

Distributions from your Traditional IRA can be requested at any time. You may elect to have all or a portion of your account distributed in one or a combination of the following ways:

- A partial payment;
- A lump sum payment; or
- Monthly, quarterly, or annual installment payments.

You cannot keep funds in your Traditional IRA indefinitely. Eventually they must be distributed. The requirements for distributing IRA funds differ, depending on the type of distribution.

1. NORMAL DISTRIBUTIONS

Distributions made between ages 59½ and 70½ are considered normal distributions and are flexible.

2. EARLY DISTRIBUTIONS

Distributions made before you reach age 59½ are considered early or premature distributions and may be subject to an IRS 10% penalty for early distribution.

3. REQUIRED MINIMUM DISTRIBUTIONS ("RMD")

You must begin receiving distributions from your Traditional IRA no later than April 1 of the year following the year in which you reach age 70½. This date is known as your required beginning date ("RBD"). Distributions for each year after the first distribution year must be taken by December 31 of each succeeding calendar year. This

includes the distribution for the second distribution calendar year, the calendar year in which the RBD occurs. If you delay the distribution for the first calendar year until the second calendar year (not later than April 1), you will be taxed on two distributions in the second year.

Example: George attained age 70½ in 2007; therefore, his first distribution calendar year is 2007, and his RBD is April 1, 2008. George wants to take his 2007 RMD in 2008. Therefore, George must take his 2007 RMD by April 1, 2008, and his 2008 RMD by December 31, 2008. Because George will take two distributions in 2008, he will be taxed on both distributions on his 2008 federal income tax return.

Your RMD is calculated as follows:

- Determine your ending account balance at December 31 of the calendar year immediately before the distribution.
- Locate the applicable divisor from the table below that appears next to your age in the year of distribution.

Uniform Lifetime Table			
Age	Distribution Period	Age	Distribution Period
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115+	1.9

- Divide the account balance (determined in Step (a)) by the applicable number from the chart (Step (b)).

The result is your RMD for the year. This calculation must be done each year.

If your spouse is your sole beneficiary during the entire year and your spouse is more than 10 years younger than you, the applicable life expectancy factor is determined using the joint life expectancy table rather than the uniform life table above (see IRS Publication 590 for the joint life expectancy table).

If you have more than one Traditional IRA, you may take the entire RMD from one of the accounts. However, you must calculate the minimum to be withdrawn from each Traditional IRA separately. The separate amounts can be added together and taken from only one of the accounts (or any combination of accounts) so long as the aggregate value of your RMD from each of your Traditional IRAs is withdrawn. A distribution from a Roth IRA may not be used to satisfy your RMD for a Traditional IRA. Unless you notify Harbor Funds to the contrary, we will assume that you are satisfying your RMD requirement from another Traditional IRA.

The IRS has issued specific rules for determining your minimum distribution amount, and you should seek competent tax advice in order to comply with all the rules governing RMDs.

4. DEATH DISTRIBUTIONS BEFORE REQUIRED BEGINNING DATE

The distribution requirements for a beneficiary of a Traditional IRA owner who dies before reaching his required beginning date (April 1 of the year following the year you reach age 70½) vary depending on who is the beneficiary.

No Designated Beneficiary or Non Living Person as Beneficiary. If you did not designate a beneficiary, it will default to your estate. When the beneficiary is not a living person, the beneficiary must close the account by December 31 of the year in which the fifth anniversary of your death occurs.

Spouse as Sole Beneficiary. A spouse beneficiary has three options:

- (a) Your spouse may elect to treat your Traditional IRA as his or her own. Once your spouse elects to treat your Traditional IRA as his or her own, distributions are no longer subject to the death distribution rules. However, if your spouse is age 70½ or older, distributions would have to be taken for each year, starting with the year your spouse elected to treat your Traditional IRA as his or her own, using the lifetime RMD rules.

- (b) The five-year rule. Your spouse must close the account by December 31 of the year in which the fifth anniversary of your death occurs; or
- (c) The life-expectancy rule. Your spouse may take the funds systematically over a period not longer than his own recalculated single life expectancy. The distributions must begin by December 31 of the year you would have reached age 70½ or by December 31 of the year following your death, whichever is later.

The election to treat your Traditional IRA as your spouse's own will be deemed automatically made if your spouse does not receive a required death distribution in any calendar year following the year of your death or if any additional amounts are contributed to the Traditional IRA.

Nonspouse Beneficiary or Spouse Is Not the Sole Beneficiary. A nonspouse beneficiary has two options:

- (a) The five-year rule. The beneficiary must close the account by December 31 of the year in which the fifth anniversary of your death occurs; or
- (b) The life-expectancy rule. The beneficiary may take the funds systematically over a period not longer than the oldest beneficiary nonrecalculated life expectancy. The distributions must begin by December 31 of the year following your death.

A spouse that is not the sole beneficiary has the same options as listed above with one additional option of electing to treat your Traditional IRA as his or her own.

If the nonspouse beneficiary does not make an election by December 31 of the year following your death, the life-expectancy rule will apply.

5. DEATH DISTRIBUTIONS ON OR AFTER REQUIRED BEGINNING DATE

The distribution requirements for a beneficiary of a Traditional IRA owner who dies on or after reaching his required beginning date (April 1 of the year following the year you reach age 70½) vary depending on who is the beneficiary.

No Designated Beneficiary or Non Living Person as Beneficiary. If you did not designate a beneficiary, it will default to your estate. In the year of your death, your beneficiary must take your RMD for the year, if you had not already done so. In subsequent years, your beneficiary must take the funds systematically over a period not longer than your nonrecalculated single life expectancy. The distributions must begin by December 31 of the year following your death.

Spouse as Sole Beneficiary. In the year of your death, your spouse must take your RMD for the year, if you had not already done so. In subsequent years, a spouse beneficiary has two options:

- (a) Your spouse may elect to treat your Traditional IRA as his or her own. Except for the year of your death, once your spouse elects to treat your Traditional IRA as his or her own, distributions are no longer subject to the death distribution rules. However, if your spouse is age 70½ or older, distributions would have to be taken for each year, starting with the year your spouse elected to treat your Traditional IRA as his or her own, using the lifetime RMD rules.
- (b) The life-expectancy rule. Your spouse may take the funds systematically over a period not longer than his own recalculated single life expectancy or your remaining non-recalculated single life expectancy. The distributions must begin by December 31 of the year following your death.

The election to treat your Traditional IRA as your spouse's own will be deemed automatically made if your spouse does not receive a required death distribution in any calendar year following the year of your death or if any additional amounts are contributed to the Traditional IRA.

Nonspouse Beneficiary or Spouse is Not the Sole Beneficiary. In the year of your death, a nonspouse beneficiary must take your RMD for the year if you have not already done so. In subsequent years, the nonspouse beneficiary must use the longer of:

- (a) single life expectancy payments based on the oldest beneficiary, nonrecalculated (set in the year following the year of death) to begin by December 31 of the year following your death; or
- (b) single life expectancy payments based on your, nonrecalculated (set in year of death), to begin by December 31 of the year following your death.

A spouse that is not the sole beneficiary has the same options as listed above with one additional option of electing to treat your Traditional IRA as his or her own.

6. TAXATION OF DISTRIBUTIONS

The IRS requires the withholding of federal income tax, and certain states require withholding of state income tax, on payments from your Traditional IRA unless you affirmatively elect not to have withholding apply. The amount of federal income tax required to be withheld on any payment under your Traditional IRA will generally equal 10% of the amount of the distribution.

The amount distributed to you is generally includible in your gross income in the tax year in which you receive it and is taxed as ordinary income. If any part of the distribution is a return of your nondeductible contributions, it is not includible in your income. The amount of each distribution that is not taxable is the portion that bears the same ratio as your total nondeductible contributions bear to the balance of your Traditional IRA at the end of the year (calculated after adding back distributions made during the year). All of your Traditional IRAs are treated as a single Traditional IRA for this purpose. In addition, all distributions from a Traditional IRA during a tax year must be treated as one distribution. This means that the total amount of distributions excludable from your income for all years cannot exceed the total nondeductible contributions for all calendar years.

7. RETURN OF AN EXCESS CONTRIBUTION

An excess contribution is a contribution that exceeds the amount permitted to be contributed to your Traditional IRA or can also be an eligible contribution that you elect to treat as an excess contribution. An excess contribution penalty equal to 6% of the amount of any excess contribution will be assessed for the year for which the excess contribution is made and for each subsequent year until the excess amount is eliminated.

Prior to Your Tax Return Due Date. If you make an excess contribution to your Traditional IRA for a taxable year, you may withdraw the excess contribution and earnings attributable to, prior to the due date for filing your federal income tax return, including extensions. If this withdrawal is made, the return of the contribution will not be subject to the 6% penalty on excess contributions (assuming the contribution is not deducted on your return). However, a 10% early distribution penalty may apply on the earnings, if any.

After Your Tax Return Due Date. If you make an excess contribution to your Traditional IRA for a taxable year and you withdraw the excess contribution after the due date for filing your federal income tax return, including extensions, the returned excess contribution will not be includible in your gross income as a Traditional IRA distribution (subject to possible early distribution penalties) if:

- (a) Your total IRA contributions for the year were not more than the applicable contribution limit; and
- (b) You did not deduct the excess contribution on your return.

However, you must pay the 6% penalty on the excess contribution for each taxable year that it was still in your

Traditional IRA at the end of the year. Under this procedure, you are not required to withdraw any earnings attributable to the excess contribution.

Applying Excess Contribution to Subsequent Year. You may also eliminate an excess contribution from your Traditional IRA in a subsequent year by not contributing the maximum amount for that year and applying the excess contribution to the subsequent year's contribution. You may be entitled to a deduction for the amount of the excess contribution that is applied in the subsequent year provided that you did not previously deduct the excess contribution.

8. DISTRIBUTION DUE TO DIVORCE OR LEGAL SEPARATION

If all or any portion of your Traditional IRA is awarded to a former spouse pursuant to divorce or legal separation, such portion can be transferred to a Traditional IRA in the receiving spouse's name. This transaction can be processed without any tax implications to you if the appropriate documentation is received by the Custodian, and specifically directs such transfer. You must provide a written instrument executed by a court incident to the divorce or legal separation in accordance with Section 408(d)(6). In addition, you must also provide the Custodian with a letter of instruction and account number of the Traditional IRA maintained by the receiving spouse, or an IRA Adoption Agreement executed by the receiving spouse, if a new Traditional IRA will be established.

9. QUALIFIED HURRICANE DISTRIBUTIONS

If you receive a qualified hurricane distribution from your Traditional IRA, you may include it in your income in equal amounts over 3 years. For example, if you received a \$60,000 qualified hurricane distribution in 2006, you would include \$20,000 in your income in 2006, 2007 and 2008. However, you can elect to include the entire distribution in your income in the year it was received. You may also repay to your Traditional IRA any qualified hurricane distribution.

A qualified hurricane distribution is any distribution you received from an eligible retirement plan (including a Traditional IRA) if all of the following conditions apply.

- (a) The distribution was made:
- After August 24, 2005, and before January 1, 2007, for Hurricane Katrina.
 - After September 22, 2005, and before January 1, 2007, for Hurricane Rita.
 - After October 22, 2005, and before January 1, 2007, for Hurricane Wilma.

- (b) Your main home was located in a qualified hurricane disaster area listed below on the date shown for that area:

- August 28, 2005, for the Hurricane Katrina disaster area. For this purpose, the Hurricane Katrina disaster area includes the states of Alabama, Florida, Louisiana, and Mississippi.
- September 23, 2005, for the Hurricane Rita disaster area. For this purpose, the Hurricane Rita disaster area includes the states of Louisiana and Texas.
- October 23, 2005, for the Hurricane Wilma disaster area. For this purpose, the Hurricane Wilma disaster area includes the state of Florida.

- (c) You sustained an economic loss because of Hurricane Katrina, Rita, or Wilma and your main home was in that hurricane disaster area on the date shown in item (b) for that hurricane. Examples of an economic loss include, but are not limited to:

- (i) loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause;
- (ii) loss related to displacement from your home; or
- (iii) loss of livelihood due to temporary or permanent layoffs.

If you meet all these conditions, you can generally designate any distribution (including periodic payments and required minimum distributions) from a Traditional IRA as a qualified hurricane distribution, regardless of whether the distribution was made on account of Hurricane Katrina, Rita, or Wilma. Qualified hurricane distributions are permitted without regard to your need or the actual amount of your economic loss.

The total of your qualified hurricane distributions from all plans is limited to \$100,000. If you have distributions in excess of \$100,000 from more than one type of plan, such as a 401(k) plan and a Traditional IRA, you may allocate the \$100,000 limit among the plans, any way you choose.

10. TRANSFERS TO HEALTH SAVINGS ACCOUNT

Beginning in 2007, if you are a participant in a high deductible health plan ("HDHP"), you may make a one-time transfer to your health savings account. You must be enrolled in your HDHP at the time of transfer and for one year thereafter; otherwise, the transfer may be subject to ordinary income tax and a 10% excise tax.

IX. CONVERSIONS TO A ROTH IRA

You may be eligible to convert amounts in a Traditional IRA to a Roth IRA. To be eligible to convert to a Roth IRA, your MAGI cannot be more than \$100,000. This income limit applies to singles as well as married couples filing joint returns. Married persons filing separately are not eligible to convert to a Roth IRA, regardless of their income. All income resulting from the conversion must be reported for the year of conversion. For example, in the case of the conversion of a deductible Traditional IRA to a Roth IRA, all of the funds are taxable in the year of the conversion. In the case of a nondeductible Traditional IRA, the portion of the conversion representing earnings is taxable in the year of conversion. For more information on Roth IRAs, consult the Roth IRA Disclosure Statement and Custodial Agreement.

X. PROHIBITED TRANSACTIONS

If during any taxable year you engage in a so-called “prohibited transaction” with respect to your Traditional IRA, the account will lose its tax-exempt status. This means, generally, that the fair market value of all account assets, valued as of the first day of the taxable year, will be deemed distributed and will be taxed as ordinary income. If you have not yet reached age 59½, the 10% early distribution penalty will also be imposed on the amount includible in your gross income as a result of the prohibited transaction.

Prohibited transactions include borrowing money from your account or pledging your account or any portion thereof as security for a loan (if you pledge any portion of your account as security for a loan, only the pledged portion will be deemed distributed to you and taxed).

XI. PENALTIES

1. 6% EXCESS CONTRIBUTION PENALTY

An excess contribution to a Traditional IRA, not removed by your tax filing deadline, is subject to the IRS 6% penalty every tax year until corrected.

2. 10% EARLY DISTRIBUTION PENALTY

Distributions made before you reach age 59½ are considered early or premature distributions and are subject to an IRS 10% penalty for early distribution. This penalty is payable with your federal income tax return filed for the year in which you receive the distribution.

Exceptions. The early distribution penalty does not apply to the extent any portion of the distribution is not includible in your income because it is attributable to a

nondeductible contribution. It also may not apply if the distribution is:

- (a) due to your death or disability;
- (b) properly rolled over to an eligible plan;
- (c) part of a series of substantially equal periodic payments (made at least annually) over your life expectancy or the joint life expectancy of you and your beneficiary;
- (d) used to pay medical expenses in excess of 7.5% of your adjusted gross income;
- (e) used to purchase medical insurance (for yourself, your spouse and your dependents) if you have received unemployment compensation under a federal or state program for at least 12 consecutive weeks and you received the distribution no later than 60 days after you have been re-employed;
- (f) used to pay certain qualified higher education expenses for you, your spouse, or the children or grandchildren of you and/or your spouse;
- (g) used to acquire the principal residence of a first-time homebuyer, including yourself, your spouse, you or your spouse’s child, grandchild, parent or other ancestor (up to a lifetime limit of \$10,000);
- (h) made to you and you are a military reservist called to active duty on or after 9/11/2001 and before 12/31/2007 for more than 179 days of active duty, if the distribution is made during the period of active duty; or
- (i) used as a qualified hurricane distribution.

3. 50% EXCESS ACCUMULATION PENALTY

You are subject to an IRS 50% excess accumulation penalty if you do not timely receive your RMD for the year. The 50% penalty applies to the difference between the RMD and the amount actually distributed.

If a nonspouse beneficiary does not receive your RMD after your death, in accordance with the death distribution rules, your beneficiary is also subject to an IRS 50% excess accumulation penalty on required amounts that he or she fails to timely withdraw. A spouse beneficiary is not subject to the 50% penalty because they are deemed to have elected to treat your Traditional IRA as his or her own if the required death distributions are not timely received.

XII. REPORTS TO THE IRS

There is not a special form to report contributions to your Traditional IRA. You claim your deduction for deductible contributions on your IRS Form 1040 for the tax year for which the contribution is made. Nondeductible contributions are reported on IRS Form 8606 and that form is attached to your IRS Form 1040. You are subject to a \$50 penalty if you fail to file IRS Form 8606 when required, unless reasonable cause for failure to file is shown. Additionally, if you report a nondeductible contribution and do not make the contribution, you will be subject to a \$100 penalty for each overstatement unless reasonable cause is shown for not making the contribution.

You must file IRS Form 5329 to report any penalty or additional tax owed on your Traditional IRA. Reportable penalties include excess contributions, early distributions or less than the required minimum distribution is distributed from your Traditional IRA. However, if you only owe the 10% penalty on early distributions and distribution code 1 is correctly shown on your Form 1099-R, you may be able to report this penalty directly on your IRS Form 1040, without filing Form 5329. See the instructions for Form 1040.

XIII. DESIGNATION OF BENEFICIARY

Under the Harbor Funds Distributors, Inc. Custodial Agreement, you may designate one or more beneficiaries to receive the balance of your account in the event of your death. If there is no effective beneficiary designation, the proceeds of the account will be paid to your estate.

XIV. FEDERAL ESTATE AND GIFT TAXATION

In the event of your death, the amount received by your beneficiary from a Traditional IRA (other than nondeductible contributions) will be subject to income tax.

Federal Estate Tax. Generally, amounts remaining in your Traditional IRA after your death will be included in your gross estate for federal estate tax purposes.

Gift Tax. Your designation of a beneficiary (or beneficiaries) to receive assets from your Traditional IRA upon your death will not be considered a transfer of property for federal gift tax purposes.

XV. FOR MORE INFORMATION

Further information concerning Traditional IRAs and IRS forms, including IRS Publication 590, *Individual Retirement Arrangements*, can be obtained from any district office of the IRS; by calling IRS Forms Distribution Center at 1-800-TAX-FORM or through the Internet at www.irs.gov.

XVI. FINANCIAL DISCLOSURE

Growth in the value of your account cannot be guaranteed or projected. However, the income and operating expenses of a mutual fund will affect the value of its shares, and hence the value of your account, as does any increase or decrease in the value of the assets of the mutual fund. Included in the information provided in the mutual fund's prospectus is information regarding current income and expenses of your mutual fund. A prospectus governed by rules of the Securities and Exchange Commission which provides information about the shares of each mutual fund available for investment by your Traditional IRA must be furnished to you. Please refer to the prospectus for detailed information concerning your mutual fund. Dividends and capital gains earned on your Traditional IRA contributions invested in shares of Harbor Funds will be computed and allocated on a per share basis and will be determined by the number of shares you own on the record date for such dividend or distribution.

Fees and other expenses of maintaining your account may be charged to you or your account. Fees are described in the Harbor Funds prospectuses and may be changed from time to time in accordance with the terms of the Harbor Funds Distributors, Inc. Custodial Agreement. To request a prospectus, visit our web site at www.harborfunds.com or call 1-800-422-1050.

XVII. IRS APPROVAL

The form of your Traditional IRA is the model form provided by the IRS known as Form 5305-A (Traditional Individual Retirement Custodial Account). For more information on Traditional IRAs, please refer to IRS Publication 590 or contact the IRS.

XVIII. ADDITIONAL INSTRUCTIONS

You should seek advice from your accountant or attorney regarding the tax and legal consequences (including but not limited to Federal and State tax matters) of entering into this Agreement, contributing to your Traditional IRA, and ordering the Custodian to make distributions from your account. The Custodian and Harbor Funds Distributors, Inc. are prohibited by law from rendering such advice to you.

TRADITIONAL IRA CUSTODIAL AGREEMENT

This Custodial Agreement provides additional information about the Traditional Individual Retirement Account (“Traditional IRA”) you are establishing when you sign the IRA Adoption Agreement. You should read this Custodial Agreement together with the Traditional IRA Disclosure Statement and keep them for future reference.

When you (referred to herein as the “Depositor”) sign the IRA Adoption Agreement, you are establishing a Traditional IRA under section 408(a) of the Internal Revenue Code of 1986, as amended, to provide for your retirement and for the benefit of your beneficiaries after your death.

State Street Bank and Trust Company (referred to herein as the “Custodian”) has provided you with the Traditional IRA Disclosure Statement required under Treasury Regulations section 1.408-6.

Section numbers mentioned in this Custodial Agreement are sections of the Internal Revenue Code of 1986, as amended (referred to herein as the “Code”).

You and the Custodian agree as follows:

ARTICLE I

Except in the case of a rollover contribution described in section 402(c), 403(a)(4), 403(b)(8), 408(d)(3), or 457(e)(16), an employer contribution to a simplified employee pension plan as described in section 408(k), or are characterized contribution described in section 408A(d)(6), the Custodian will accept only cash contributions up to \$4,000 for tax year 2007 and \$5,000 for 2008 and thereafter. For individuals who have reached the age of 50 before the close of the tax year, the contribution limit is increased to \$5,000 for 2007 and \$6,000 for 2008 and thereafter. For tax years after 2008, the above limits will be increased to reflect a cost-of-living adjustment, if any.

ARTICLE II

The Depositor’s interest in the balance in the custodial account is nonforfeitable.

ARTICLE III

1. No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).

2. No part of the custodial account funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

ARTICLE IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the Depositor’s interest in the custodial account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and the regulations thereunder, the provisions of which are herein incorporated by reference.
2. The Depositor’s entire interest in the custodial account must be, or begin to be, distributed not later than the Depositor’s required beginning date, April 1 following the calendar year in which the Depositor reaches age 70½. By that date, the Depositor may elect, in a manner acceptable to the Custodian, to have the balance in the custodial account distributed in:
 - (a) A single sum or
 - (b) Payments over a period not longer than the life of the Depositor or the joint lives of the Depositor and his or her designated beneficiary.
3. If the Depositor dies before his or her entire interest is distributed to him or her, the remaining interest will be distributed as follows:
 - (a) If the Depositor dies on or after the required beginning date and:
 - (i) the designated beneficiary is the Depositor’s surviving spouse, the remaining interest will be distributed over the surviving spouse’s life expectancy as determined each year until such spouse’s death, or over the period in paragraph (a)(iii) below if longer. Any interest remaining after the spouse’s death will be distributed over such spouse’s remaining life expectancy as determined in the year of the spouse’s death and reduced by 1 for each subsequent year, or, if distributions are being made over the period in paragraph (a)(iii) below, over such period.
 - (ii) the designated beneficiary is not the Depositor’s surviving spouse, the remaining interest will be distributed over the beneficiary’s remaining life expectancy as determined in the year following

the death of the Depositor and reduced by 1 for each subsequent year, or over the period in paragraph (a)(iii) below if longer.

- (iii) there is no designated beneficiary, the remaining interest will be distributed over the remaining life expectancy of the Depositor as determined in the year of the Depositor's death and reduced by 1 for each subsequent year.
- (b) If the Depositor dies before the required beginning date, the remaining interest will be distributed in accordance with (i) below or, if elected or there is no designated beneficiary, in accordance with (ii) below:
- (i) The remaining interest will be distributed in accordance with paragraphs (a)(i) and (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), starting by the end of the calendar year following the year of the Depositor's death. If, however, the designated beneficiary is the Depositor's surviving spouse, then this distribution is not required to begin before the end of the calendar year in which the Depositor would have reached 70½. But, in such case, if the Depositor's surviving spouse dies before the distributions are required to begin, then the remaining interest will be distributed in accordance with (a)(ii) above (but not over the period in paragraph (a)(iii), even if longer), over such spouse's designated beneficiary's life expectancy, or in accordance with (ii) below if there is no such designated beneficiary.
 - (ii) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the Depositor's death.
4. If the Depositor dies before his or her entire interest has been distributed and if the designated beneficiary is not the Depositor's surviving spouse, no additional contributions may be accepted in the account.
5. The minimum amount that must be distributed each year, beginning with the year containing the Depositor's required beginning date, is known as the "required minimum distribution" and is determined as follows:
- (a) The required minimum distribution under paragraph 2(b) for any year, beginning with the year the Depositor reaches age 70½, is the Depositor's account value at the close of business on December 31 of the preceding year divided by the distribution period in the uniform lifetime table in Regulations section

1.401(a)(9)-9. However, if the Depositor's designated beneficiary is his or her surviving spouse, the required minimum distribution for a year shall not be more than the Depositor's account value at the close of business on December 31 of the preceding year divided by the number in the joint and last survivor table in Regulations section 1.401(a)(9)-9. The required minimum distribution for a year under this paragraph (a) is determined using the Depositor's (or, if applicable, the Depositor and spouse's) attained age (or ages) in the year.

- (b) The required minimum distribution under paragraphs 3(a) and 3(b)(i) for a year, beginning with the year following the year of the Depositor's death (or the year the Depositor would have reached age 70½, if applicable under paragraph 3(b)(i)) is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the individual specified in such paragraphs 3(a) and 3(b)(i).
 - (c) The required minimum distribution for the year the Depositor reaches age 70½ can be made as late as April 1 of the following year. The required minimum distribution for any other year must be made by the end of such year.
6. The owner of two or more Traditional IRAs may satisfy the minimum distribution requirements described above by taking from one Traditional IRA the amount required to satisfy the requirement for another in accordance with the regulations under section 408(a)(6).

ARTICLE V

1. The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required under section 408(i) and Regulations sections 1.408-5 and 1.408-6.
2. The Custodian agrees to submit to the Internal Revenue Service (IRS) and Depositor the reports prescribed by the IRS.

ARTICLE VI

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through III and this sentence will be controlling. Any additional articles that are inconsistent with section 408(a) and the related regulations will be invalid.

ARTICLE VII

This agreement will be amended as necessary to comply with the provisions of the Code and related regulations. Other amendments may be made with the consent of the persons whose signatures appear on the IRA Adoption Agreement.

ARTICLE VIII

The provisions of this Article VIII supplement the prior Articles which constitute Internal Revenue Service Form 5305-A (Traditional Individual Retirement Custodial Account).

1. INVESTMENT OF ASSETS

All assets held in your Traditional IRA will be invested in shares of Harbor Funds or any other investment permitted under section 408(a) of the Code which the Custodian permits as an investment under this Agreement (“Other Investments”). The Custodian shall be entitled to rely completely on investment instructions furnished by you and shall have no duty or obligation to question such investment instructions. You acknowledge that the Custodian does not undertake to render any investment advice and that the Custodian is not responsible for any loss which results from your (or, following your death, your beneficiary’s) exercise of (or failure to exercise) investment control.

2. CUSTODIAL ACCOUNT

(a) This Agreement will become effective when it is accepted by the Custodian. The Custodian will open a separate custodial account for you and invest your contributions in accordance with your written instructions in the Adoption Agreement and in accordance with any subsequent directions given in the form and manner acceptable to the Custodian by you (or, following your death, by your beneficiary). How your contributions are invested is your decision. The only requirement is that you choose only from the funds offered by Harbor Funds Distributors, Inc. The funds offered may change from time to time. Neither Harbor Funds Distributors, Inc. nor the Custodian renders any investment advice whatsoever nor is responsible for your investment decisions. The Custodian’s only duties are those stated in Article VIII, paragraph 4. If any of your investment instructions are not received as required or are, in the opinion of the Custodian, unclear, the Custodian may either return the contribution to you or may not invest some or all of your contribution until additional written

instructions or a clarification is received from you. In that case, the Custodian shall not be liable for lost interest or for loss of income or appreciation or any other loss during the period it is waiting for your written instructions or clarification.

- (b) All dividends and other distributions received by the Custodian on shares of any Harbor Funds held in your Traditional IRA shall be reinvested in additional shares of such Harbor Funds unless you direct the Custodian, in the form and manner acceptable to the Custodian, to invest such dividends and other distributions in accordance with your instructions. Dividends, capital gains, interest or any other distributions received with respect to Other Investments held in your Traditional IRA shall be reinvested in accordance with your written instructions in the Adoption Agreement or in subsequent instructions furnished to the Custodian in the form and manner acceptable to the Custodian.
- (c) All assets held in your Traditional IRA will be registered in the name of the Custodian for your benefit. The Custodian shall deliver, or cause to be delivered, to you all notices, prospectuses, financial statements, proxies, and proxy soliciting materials it receives relating to the Harbor Funds shares or Other Investments held in your Traditional IRA. The Custodian shall not vote any such shares except in accordance with written instructions received from you.

3. DISTRIBUTIONS

- (a) The Custodian does not have any responsibility to make any distributions from your Traditional IRA until the Custodian receives written instructions signed by you (or your beneficiary if you are deceased). Your written instructions must specifically tell the Custodian when to make a distribution, the form of distribution, and any declaration required by this Agreement or regulations under the Code. Also, you must give the Custodian all applications, certificates, tax waivers, signature guarantees, and other documents (including proof of your legal representative’s authority if your legal representative is signing for you) that the Custodian requests before the Custodian will make any distribution or honor any assignment of your Traditional IRA. The Custodian will not be responsible for complying with instructions that appears on its face to be genuine, or for refusing to comply if it does not think that an instruction is genuine. It is not the Custodian’s responsibility to determine whether instructions are genuine.

- (b) Distribution of the assets of your Traditional IRA shall be made at such time and in such form as you (or your beneficiary if you are deceased) shall elect by written order to the Custodian. You acknowledge that any distribution (except for distributions due to disability or death, return of an “excess contribution” referred to in section 408(d) of the Code, a “rollover” from this Traditional IRA or as otherwise may be permitted by law) made earlier than age 59½ may subject you to an “additional tax on early distributions” under section 72(t) of the Code. You will be considered disabled if you can prove, as provided in section 72(m)(7) of the Code, that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or be of long-continued and indefinite duration. It is your responsibility (or your beneficiary if you are deceased) to provide appropriate distribution instructions to the Custodian to insure that the distribution requirements of section 401(a)(9) of the Code and Article IV are met. If you (or your beneficiary if you are deceased) does not direct the Custodian to make distributions from your Traditional IRA by the time that such distributions are required to commence in accordance with such distribution requirements, the Custodian and Harbor Funds Distributors, Inc. shall assume that you (or your beneficiary if you are deceased) is meeting the minimum distribution requirements from another individual retirement arrangement maintained by you (or your beneficiary if you are deceased) and the Custodian and Harbor Funds Distributors, Inc. shall be fully protected in so doing.
- (c) You acknowledge (i) that any withdrawal from your Traditional IRA will be reported by the Custodian in accordance with applicable IRS requirements (currently, on Form 1099-R), (ii) that the information reported by the Custodian will be based on the amounts in your Traditional IRA and will not reflect any other individual retirement accounts that you may own and that, consequently, the tax treatment of the withdrawal may be different than if you had no other individual retirement accounts, and (iii) that, accordingly, it is your responsibility to maintain appropriate records so that you (or other person ordering the distribution) can correctly compute all taxes due.
- (d) The Custodian assumes no responsibility for the tax treatment of any distribution from this Traditional IRA; it is your (or your beneficiary if you are deceased) responsibility to determine what such tax

treatment will be. It is your responsibility to make sure that you do not request (or your legal representative does not request for you) a distribution from the Custodian too early or too late to cause a penalty. The Custodian is not responsible for keeping track of this for you and is not responsible for the early distribution additional tax or the late distribution additional tax if distributions are not made according to the IRS rules.

- (e) The term “beneficiary” means the person or persons you designate to receive your Traditional IRA after your death. Such designation must be in writing in a form acceptable to the Custodian. You must sign the designation and it must be filed with the Custodian. You may designate individuals, trusts, estates, or other entities as either primary or contingent beneficiaries. However, if the designation does not effectively dispose of the entire Traditional IRA as of the time distribution is to commence, the term “beneficiary” shall then mean your estate with respect to the assets of your Traditional IRA not disposed of by your designation. The designation last accepted by the Custodian before such distribution is to commence, provided it was received by the Custodian (or deposited in the U.S. Mail or with a reputable delivery service) during your lifetime shall be controlling and, whether or not it fully disposes of your Traditional IRA, thereupon shall revoke all such designations previously filed. (**Note:** Married individuals who reside in a community property or marital property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington or Wisconsin), may need to obtain spousal consent if they have not designated their spouse as the primary beneficiary for at least half of their Traditional IRA. Consult an attorney or other tax professional for additional information and advice.

Your beneficiary has no interest in your Traditional IRA while you are living.

4. CUSTODIAN'S RESPONSIBILITIES

- (a) The Custodian will keep records of activity in your account. Not later than 60 days after the close of each calendar year or after the Custodian's resignation or removal pursuant to Article VIII, paragraph 5, you will receive a written report showing the transactions in your account during the preceding calendar year and the assets of your Traditional IRA. Unless you send a written objection about

something in the report to the Custodian within 60 days after the Custodian issued the report, the report will be considered to be correct, and the Custodian shall have no responsibility for any of the transactions reported in it. The Custodian shall also furnish such information concerning required minimum distributions as is prescribed by the Commissioner of the IRS.

- (b) The Custodian is also required to send reports regarding your IRA account and its assets to the Internal Revenue Service and to you.
- (c) The Custodian is acting on your behalf with respect to your Traditional IRA. However, neither Harbor Funds Distributors, Inc. nor the Custodian is a fiduciary. The Custodian will not be liable (and assumes no responsibility) for the collection of contributions or for the deductibility of any contribution that you make to your Traditional IRA. It will also not look into the purpose for which any distribution you request is used.
- (d) You will always fully indemnify Harbor Funds Distributors, Inc. and the Custodian and save either or both of them harmless from any and all liability that may arise either (i) in connection with this Agreement and matters which it contemplates, except for liability that arises due to the negligence or willful misconduct by Harbor Funds Distributors, Inc. or the Custodian, or (ii) with respect to making or failing to make any distribution, other than for failure to make a distribution that you request. The Custodian is not obligated or expected to commence or defend any legal action or proceeding in connection with this Agreement or such matters unless the Custodian and you agree to do so and the Custodian is fully indemnified for doing so to its satisfaction.
- (e) With the consent of Harbor Funds Distributors, Inc., the Custodian may delegate to Harbor Funds Distributors, Inc. or an affiliate of Harbor Funds Distributors, Inc. certain administrative and ministerial duties and Harbor Funds Distributors, Inc. or such affiliate will have the full benefit of the terms of this Agreement to the extent such provisions apply to the Custodian.
- (f) The Custodian and Harbor Funds Distributors, Inc. may conclusively rely upon and shall be protected in acting upon any written order from or authorized by you (or your beneficiary, if you are deceased) or any other notice, request, consent, certificate or other instrument, paper, or other communication whether

or not in writing believed by the Custodian or Harbor Funds Distributors, Inc. or its affiliates to be genuine and to have been issued in proper form and with proper authority, and, so long as they act in good faith, in taking or omitting to take any other action in reliance thereon.

5. RESIGNATION OR REMOVAL OF CUSTODIAN

- (a) The Custodian is State Street Bank and Trust Company, a qualified financial institution, or such successor custodian as appointed hereunder. The Custodian may resign at any time upon at least 30 days' prior written notice to you, and may be removed by you at any time upon at least 30 days' prior written notice to the Custodian. Upon such resignation or removal, you or Harbor Funds Distributors, Inc. shall appoint a successor custodian to serve under this Agreement. Upon receipt by the Custodian of written acceptance of such appointment by the successor custodian, the Custodian shall transfer to such successor the assets of your Traditional IRA and all necessary records (or copies thereof) pertaining thereto, provided that (if so requested by Custodian) any successor custodian agrees not to dispose of any such records without the Custodian's consent. The Custodian is authorized, however, to reserve such a portion of such assets as it may deem advisable for payment of all its fees, compensation, costs, and expenses, or for payment of any other liabilities constituting a charge on or against the assets of the Traditional IRA or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to the successor custodian.
- (b) If within 30 days after the Custodian's resignation or removal or such longer time as the Custodian may agree to, you or Harbor Funds Distributors, Inc. has not appointed a successor custodian which has accepted such appointment, the Custodian shall terminate your Traditional IRA pursuant to Article VIII, paragraph 7.
- (c) Neither Harbor Funds Distributors, Inc. nor the Custodian shall be liable for the acts or omissions of such successor custodian.
- (d) The Custodian, and every successor custodian appointed to serve under this Agreement, must be a bank as defined in Code section 408(n) or such other person who qualifies to serve in the manner prescribed by Code section 408(a)(2) and satisfies you or the Custodian, upon request, as to such qualification.

- (e) After the Custodian has transferred your Traditional IRA assets (including any reserve balance as contemplated above) to the successor custodian, the Custodian shall be relieved of all further liability with respect to this Agreement, your Traditional IRA, and the assets thereof.
- (f) You delegate to Harbor Funds Distributors, Inc. the powers reserved to you under this paragraph 5, but without prejudice to you to exercise such powers.

6. AMENDMENT

- (a) You delegate to the Custodian your right to so amend, including retroactively, as necessary or appropriate in the opinion of counsel satisfactory to the Custodian, in order to conform with pertinent provisions of the Code and other laws or successor provisions of law or to obtain a governmental ruling that such requirements are met, or as otherwise may be advisable in the opinion of such counsel. Such an amendment by the Custodian shall be communicated in writing to you, and you shall be deemed to have consented thereto unless, within 30 days after such communication to you is mailed, you either (i) give the Custodian a proper written order for a lump sum distribution of the custodial account, or (ii) remove the Custodian and simultaneously appoint a successor custodian under Article VIII, paragraph 5.
- (b) You also delegate to Harbor Funds Distributors, Inc. your right to so amend, including retroactively, as necessary or appropriate in the opinion of counsel satisfactory to the Harbor Funds Distributors, Inc., in order to conform with pertinent provisions of the Code and other laws or successor provisions of law or to obtain a governmental ruling that such requirements are met, to adopt a prototype or master plan (when one becomes available) for investment in shares of such mutual fund or other investments, or as otherwise may be advisable in the opinion of such counsel. Such amendment shall be communicated in writing to you and the Custodian, and you shall be deemed to have consented thereto unless, within 30 days after such communication to you is mailed, you give the Custodian a proper written order for a lump sum distribution of the custodial account. The Custodian shall be deemed to have consented to such Amendment unless, within 30 days after such communication, the Custodian resigns pursuant to Article VIII, paragraph 5.
- (c) This paragraph 6 shall not be construed to restrict the Custodian's freedom to agree with Harbor Funds

Distributors, Inc. upon the terms by which additional shares of Harbor Funds, or shares of other mutual funds or Other Investments may be chosen for investment as contemplated in Article VIII, paragraph 1, or the Custodian's freedom to change fee schedules in the manner provided by Article VIII, paragraph 9, and no such agreement or change shall be deemed to be an amendment of this Agreement.

7. TERMINATION

- (a) The Custodian shall terminate your Traditional IRA if, within the time specified in Article VIII, paragraph 5(b), you or Harbor Funds Distributors, Inc. has not appointed a successor custodian which has accepted such appointment. Termination of your Traditional IRA shall be effected by distributing all assets thereof in a lump sum in cash or in kind to you, subject to the Custodian's right to reserve funds as provided in Article VIII, paragraph 5(a).
- (b) Upon termination of your Traditional IRA, this Agreement shall terminate and have no further force and effect, and Harbor Funds Distributors, Inc. and the Custodian shall be relieved from all further liability with respect to this Agreement, your Traditional IRA, and all assets thereof so distributed.

8. LIQUIDATION OF THE CUSTODIAL ACCOUNT

- (a) Notwithstanding anything contained in this Agreement to the contrary, if the value of your Traditional IRA is less than the minimum value established on a non-discriminatory basis from time to time, Harbor Funds Distributors, Inc. shall have the right to direct the Custodian, by written order to the Custodian, to liquidate your Traditional IRA. Upon receipt of such written order, the Custodian shall, as soon as practicable, proceed to liquidate your Traditional IRA by distributing all assets subject to such order in a lump sum in cash or in kind to you, subject to the Custodian's right to reserve such a portion of such assets as it may deem advisable for payment of all its fees, compensation, costs, and expenses, or for payment of any other liabilities constituting a charge on or against the assets of your Traditional IRA or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to you. Harbor Funds Distributors, Inc. shall have no duty to make such order to liquidate the custodial account. Moreover, if such order is made, it may be made with respect to any specified accounts, either

singly or as a group, to which the order may be applicable.

- (b) Neither Harbor Funds Distributors, Inc. nor the Custodian shall be liable for, or in any way responsible with respect to, any penalty or any other loss incurred by any person with respect to a distribution made hereunder and upon liquidation of your Traditional IRA as aforesaid, this Agreement shall terminate and have no further force and effect, and the Custodian and Harbor Funds Distributors, Inc. shall be relieved from all further liability with respect to this Agreement, your Traditional IRA, and all assets thereof so distributed.

9. CUSTODIAN'S FEES

The Custodian shall be entitled to receive such reasonable fees with respect to the establishment and administration of this Traditional IRA as it establishes from time to time. The Custodian's fees, any income, gift, estate and inheritance taxes and other taxes of any kind whatsoever, that may be levied or assessed in respect to such assets, and all other administrative expenses incurred by the Custodian in the performance of its duties including fees for legal services rendered to the Custodian, may be charged either to your Traditional IRA, with the right to liquidate investments for this purpose, or to you. The Custodian may change its fee schedule upon 30 days' prior written notice to you.

10. MISCELLANEOUS

- (a) References herein to the "Internal Revenue Code" or "Code" and sections thereof shall mean the same as amended from time to time hereafter, including successors to such sections.
- (b) Except where otherwise specifically required in this Agreement, any notice from the Custodian to any person provided for in this Agreement shall be effective if sent by regular mail or electronic means to such person at that person's last address on the Custodian's records.
- (c) This Agreement is accepted by the Custodian and shall be construed and administered in accordance with the laws of the Commonwealth of Massachu-

setts. This Agreement is intended to qualify under section 408 of the Code as a Traditional Individual Retirement Account and for the Retirement Savings deduction under section 219 of the Code, and if any provision hereof is subject to more than one interpretation or any term used herein is subject to more than one construction, such ambiguity shall be resolved in favor of that interpretation or construction which is consistent with that intent. However, the Custodian and Harbor Funds Distributors, Inc. shall not be responsible for whether or not such intentions are achieved through use of this Agreement, and you are referred to your attorney for any such assurances.

- (d) If the Depositor is a minor under the laws of his or her state of residence, then a parent or guardian shall exercise all powers and duties of the Depositor, as indicated herein, and shall sign the IRA Adoption Agreement on behalf of the minor. The Custodian's acceptance of the IRA on behalf of any Depositor who is a minor is expressly conditioned upon the agreement of the parent or guardian to accept the responsibility to exercise all such powers and duties, and all parties hereto so acknowledge. Upon attainment of the age of majority under the laws of the Depositor's state of residence at such time, the Depositor may advise the Custodian in writing (accompanied by such documentation as the Custodian may require) that he or she is assuming sole responsibility to exercise all rights, powers, obligations, responsibilities, authorities or requirements associated with the IRA. Upon such notice to the Custodian, the Depositor shall have and shall be responsible for all of the foregoing, the Custodian will deal solely with the Depositor as the person controlling the administration of the IRA, and the Depositor's parent or guardian thereafter shall not have or exercise any of the foregoing. Absent such written notice from the Depositor, Custodian shall be under no obligation to acknowledge the Depositor's right to exercise such powers and authority and may continue to rely on the parent or guardian to exercise such powers and authority until notified to the contrary by the Depositor.

ROTH IRA DISCLOSURE STATEMENT

This Roth IRA Disclosure Statement is provided in accordance with Internal Revenue Service (IRS) regulations. Please read the following information together with the Roth IRA Custodial Agreement and the Harbor Funds Prospectus for the fund(s) you select for your Roth IRA investments.

I. YOUR HARBOR FUNDS ROTH IRA

A Roth IRA is an individual retirement account through which you may obtain certain income tax benefits by accumulating funds to provide retirement benefits for yourself. You may not deduct the contributions you make to your Roth IRA. However, your Roth IRA is a tax-sheltered account and if certain conditions are met, distributions from it will be tax free.

Your Harbor Funds Roth IRA is a custodial account governed by the terms of the Harbor Funds Distributors, Inc. Custodial Agreement (“Custodial Agreement”). The Custodial Agreement complies with all statutory requirements, including the following:

- Your Roth IRA is established with a qualified custodian. State Street Bank and Trust Company is the Custodian.
- All contributions to your Roth IRA must be made in cash.
- No part of your Roth IRA may be invested in life insurance contracts or certain collectibles (works of art, rugs, antiques, metals or gems, stamps or coins, alcoholic beverages and certain other property specified by the IRS), other than certain coins and bullion.
- The balance in your account is nonforfeitable at all times.
- Your Roth IRA assets will be maintained by the Custodian in a separate account and will not be commingled with the assets of any other investor.
- Your Roth IRA must comply with certain provisions of the Internal Revenue Code requiring distributions after your death.

II. POWER TO REVOKE

For a period of seven (7) days following the date on which you enter into a Roth IRA Custodial Agreement with Harbor Funds Distributors, Inc., you have the right to revoke your Roth IRA. To revoke your Roth IRA, you must mail or deliver your written revocation to Harbor Funds Distributors, Inc., c/o Harbor Services Group, Inc., P.O. Box 804660, Chicago, IL 60680-4108. If your revocation is mailed, the date of the postmark (or the date of certification or registration if sent by certified or registered mail) will be considered your revocation date, provided the letter is deposited in the U. S. Postal Service, first-class postage prepaid, properly addressed.

If you revoke your Roth IRA during the seven (7) day period, you are entitled to a return of the entire amount deposited to your Roth IRA without reduction for any fees or expenses and without adjustment for any investment gain or loss.

III. ELIGIBILITY

There is no age limit on making contributions to your Roth IRA. You can establish and make contributions to a Roth IRA if you (or, if you file a joint return, your spouse) received taxable compensation during the year and your modified adjusted gross income is less than:

- \$169,000 for married filing jointly,
- \$10,000 for married filing separately and you lived with your spouse at any time during the year, and
- \$116,000 for single, head of household, qualifying widow(er) or married filing separately and you did not live with your spouse at any time during the year.

For purposes of your IRA contribution limits, your compensation includes all wages, salaries, tips, professional fees, bonuses, and other amounts you receive for providing personal services, and any earned income from self-employment. Your compensation also includes any taxable alimony or separate maintenance payments you may receive under a decree of divorce or separate maintenance. It does not include earnings and profits from property such as dividends, interest, capital gains, amounts received as a pension or annuity, or as deferred compensation.

If you are a member of the armed forces and serve in a combat zone, your compensation includes tax-free combat pay for purposes of determining your eligibility to contribute to a Roth IRA. In addition, if you received tax-free combat pay in 2004 or 2005, you may be eligible to make Roth IRA contributions for those years. You may be eligible to make these additional contributions until May 28, 2009. You should consult with your tax advisor to determine whether you qualify to make these special contributions.

IV. TYPES OF CONTRIBUTIONS

You may make regular, spousal, and catch-up contributions to your Roth IRA at any time during the calendar year up to and including April 15th (or the next business day if the 15th is on a weekend) of the following year. You may make a single contribution or periodic contributions. You are not required to contribute to your Roth IRA each year. Furthermore, your Roth IRA contributions are not limited by your or your spouse’s active participation in an employer-sponsored retirement plan.

You must tell us the tax year for which each contribution is made. If you do not tell us a year, we will assume the contribution is for the tax year in which it is received. For example, if you send a contribution on February 14, 2008, we will assume it is a contribution for 2008 unless you tell us that it is a contribution for the prior year, 2007.

It is your responsibility to make sure that the amount you contribute to this Roth IRA and to any other IRAs that you have is not greater than the limits established by the IRS.

The types of contributions that may be made to your Roth IRA are described below.

1. REGULAR CONTRIBUTIONS

You may contribute an amount equal to your compensation or the amount shown below opposite the calendar year, whichever amount is less. Your total annual contributions for any one tax year, including contributions you make to Traditional IRAs, cannot exceed these limits.

Contribution Limits	
Year	Maximum Contribution
2007	\$4,000
2008	\$5,000
2009	*
2010	*

* Subject to cost-of-living adjustment

Your Roth IRA maximum contribution is phased out based on your modified adjusted gross income (“MAGI”) and tax filing status as follows, as calculated in accordance with Section 408A(c)(3)(c)(i) of the Internal Revenue Code:

Tax Filing Status	Phase-Out Range		
	Full Contribution if MAGI is	Partial Contribution if MAGI is Between	No Contribution if MAGI is
Single	<\$101,000	\$101,000-\$116,000	\$116,000+
Married filing joint	<\$159,000	\$159,000-\$169,000	\$169,000+
Married filing separate	\$0	\$0-\$10,000	\$10,000+

For purposes of Roth IRA contributions your MAGI is determined by reducing your adjusted gross income on your tax return by any income resulting from the conversion of an IRA and adding any Traditional IRA deductions, student loan deductions, foreign earned

income exclusions, foreign housing exclusions or deductions, exclusions of qualified bond interest shown on IRS Form 8815, exclusions of employer-paid adoption expenses shown on IRS Form 8839, and deductions for qualified tuition and related expenses. If you and your spouse did not live together at any time during the taxable year, your filing status will be considered to be single for Roth IRA contribution purposes.

2. SPOUSAL CONTRIBUTIONS

A Roth IRA for your spouse does not involve the creation of a joint account. Each account is separately owned and treated independently from the account of the other. Each spouse is subject to all the rules and regulations governing the Roth IRA established in his or her name.

Spousal contributions may be made to you or your spouse’s Roth IRA if you and your spouse were legally married on December 31 of the year for which the contribution is made. You must also file a joint federal income tax return for the tax year in which the contribution is being made.

3. CATCH-UP CONTRIBUTIONS

If you are age 50 before the end of the taxable year, you may make a catch-up contribution each year, in addition to your annual contribution.

Catch-Up Contribution Limits	
Year	Catch-Up Contribution
2007	\$1,000
2008	\$1,000
2009	\$1,000
2010	\$1,000

4. ROLLOVER CONTRIBUTIONS

A rollover contribution consists of assets distributed from a Roth IRA and that satisfies the requirements of section 402A(c)(3)(A) or 408(d)(3) of the Code.

At the time you make a proper rollover to a Roth IRA, you must designate to the Custodian, in writing, your elections to treat that contribution as a rollover. Once made, the rollover election is irrevocable. Rollovers are limited to one per 365 days for each IRA. In contrast, a direct rollover (also referred to as a transfer) of Roth IRA assets from one Custodian to another Custodian can be done as many times as you wish during the year.

Roth IRA to Roth IRA Rollover. If you receive a distribution from one Roth IRA, you can rollover all or part

of it into another Roth IRA within 60 days from the date in which you received the distribution.

Rollover from a QRP. For 2007 assets from a qualified retirement plan are not allowed to be rolled over to a Roth IRA, except as permitted with respect to Roth 401(k) rollover contributions. Beginning in 2008, amounts from qualified retirement plans, tax-sheltered annuities and governmental Section 457 deferred compensation plans, may be rolled over to Roth IRAs, subject to the same restrictions governing conversions from Traditional IRAs to Roth IRAs.

5. RECHARACTERIZATIONS

The election to treat a contribution made to one type of IRA as being made to another type of IRA is referred to as a recharacterization. Your election to recharacterize may not be revoked after the transfer. You may recharacterize a contribution to a Traditional IRA as a contribution to a Roth IRA, or may recharacterize a contribution to a Roth IRA as a contribution to a Traditional IRA in accordance with the requirements of section 408A(d)(6) of the Code.

Generally, you have until October 15th to recharacterize a contribution. For example, you have until October 15, 2008 to recharacterize a 2007 contribution. The IRS cautions that recharacterizations must be properly reported on your tax return. Therefore, if you have already filed your tax return and then elect to recharacterize, you may need to file an amended return. You should consult your tax adviser for assistance.

The Custodian will not be responsible for any penalties or losses you may incur as a result of the timing of any such recharacterization from another trustee or custodian that are due to circumstances beyond the control of the Custodian. Assets held on your behalf may be transferred (“recharacterized”) via a trustee-to-trustee transfer to a trustee or custodian of another IRA established for you, if so directed by you in a form and a manner acceptable to the Custodian. It shall be your responsibility in all cases to ensure that the recharacterization is permissible and satisfies the requirements of section 408A of the Code and any regulations thereunder, and any other applicable guidance issued by the Internal Revenue Service.

6. CONVERSIONS

Rollovers from a Traditional IRA or a Savings Incentive Match Plan for Employees (SIMPLE) IRA to a Roth IRA are treated as conversions. Beginning in 2008, rollovers from qualified retirement plans, tax-deferred annuities and governmental Section 457 plans are treated

as conversions. To be eligible to convert to a Roth IRA, your MAGI cannot be more than \$100,000. This income limit applies to singles as well as married couples filing joint returns. Married persons filing separately are not eligible to convert to a Roth IRA, regardless of their income. All income resulting from the conversion must be reported for the year of conversion. For example, in the case of the conversion of a deductible Traditional IRA to a Roth IRA, all of the funds are taxable in the year of conversion. In the case of a nondeductible Traditional IRA, the portion of the conversion representing earnings is taxable in the year of conversion.

To qualify as a tax-free rollover from a SIMPLE IRA to a Roth IRA, a rollover distribution cannot be made prior to the two-year period beginning on the date on which you first participated in your employer’s SIMPLE plan. The two-year period begins on the first day on which contributions made by your employer are deposited in your SIMPLE IRA.

There is no age limit on making conversions. Those under 59½ who convert are not subject to the 10% early distribution penalty on the conversion.

RMDs from a Traditional IRA for the year of conversion cannot be converted to a Roth IRA. If you want to effect a conversion for a year in which you must take a RMD, you must first take your RMD and then make the conversion. Conversions from a Traditional IRA to a Roth IRA must generally be made by December 31 to be accounted for during that tax year.

7. TRANSFERS

You may transfer assets between like IRAs by directing a custodian or trustee of an existing Roth IRA to transfer an amount in cash directly to the Custodian to be invested in accordance with this Agreement. Transfers are generally only permitted between the same type of IRA plans (e.g., Roth IRA to Roth IRA). In accepting or making any such direct transfer of assets, the Custodian assumes no responsibility for the tax consequences of the transfer. The Custodian will not be responsible for any losses you may incur as a result of the timing of any transfer from or to another custodian or trustee.

Transfers Incident to Divorce. All or any portion of your Roth IRA may be transferred to a former spouse pursuant to a divorce decree or written instrument incident to divorce as provided in section 408(d)(6) of the Code, in which event the transferred portion of your Roth IRA shall be held as a separate Roth IRA for the benefit of such spouse in accordance with the terms and conditions of this Agreement.

8. TAX REFUNDS

Beginning in 2007, all or a portion of your tax refund may be deposited into your Roth IRA account, subject to the contribution limits for that year. You must complete and submit Form 8888 to the IRS to direct your tax refund into your Roth IRA.

9. CATCH-UP CONTRIBUTIONS IN CERTAIN EMPLOYER BANKRUPTCIES

If you participated in a 401(k) plan and the employer who maintained the plan went into bankruptcy, you may be able to contribute an additional \$3,000 to your Roth IRA. For this to apply, the following conditions must be met:

- You must have been a participant in a 401(k) plan under which the employer matched at least 50% of your contributions to the plan with stock of the company;
- You must have been a participant in the 401(k) plan 6 months before the employer filed for bankruptcy;
- The employer (or a controlling corporation) must have been a debtor in a bankruptcy case in an earlier year; and
- The employer (or any other person) must have been subject to indictment or conviction based on business transactions related to the bankruptcy.

If you choose to make these additional contributions, you cannot use the higher contribution and deduction limits for individuals who are age 50 or older.

V. DEDUCTIBILITY OF CONTRIBUTIONS

No deduction is allowed for Roth IRA contributions. The cost of making a Roth IRA contribution is totally out-of-pocket with after tax dollars. However, all distributions from your Roth IRA (contributions plus earnings) can eventually be withdrawn tax-free.

VI. TAX CREDIT FOR CONTRIBUTIONS (SAVER'S CREDIT)

You may be eligible to receive a tax credit. The amount of the Saver's Credit is based on the contributions you make and your credit rate. Your credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income. See the following table to determine your credit rate.

2008 Adjusted Gross Income*			Credit Rate
Joint Return	Head of Household	All Other	
Up to \$32,000	Up to \$24,000	Up to \$16,000	50%
\$32,001-\$34,500	\$24,001-\$25,875	\$16,001-\$17,250	20%
\$34,501-\$53,000	\$25,876-\$39,750	\$17,251-\$26,500	10%
Over \$53,000	Over \$39,750	Over \$26,500	0%

* Adjusted gross income includes foreign earned income and income from Guam, American Samoa, North Mariana Islands and Puerto Rico.

The maximum contribution taken into account is \$2,000 per taxpayer. On a joint return, up to \$2,000 is taken into account for each spouse. This credit will be allowed in addition to any tax deduction that may apply, and may not exceed \$1,000 in a given year.

You may be eligible for this tax credit if you are (i) age 18 or older as of the close of the taxable year, (ii) not a dependent of another taxpayer, and (iii) not a full-time student.

In order to determine the amount of your Saver's Credit, you add all of the eligible contributions made to an employer-sponsored retirement plan and IRAs and reduce these contributions by any distributions that you may have taken during the testing period. The testing period consists of the year for which you claim the credit, the period after the end of that year and before the due date (including extensions) for filing your return for that year, and the 2 tax years before that year. A distribution that is a return of a contribution to an IRA made during the year for which you claim the credit does not reduce your eligible contributions if (i) the distribution is made before the due date (including extensions) of your tax return for that year, (ii) you do not take a deduction for the contribution, and (iii) the distribution includes any income attributable to the contribution. Any distributions your spouse receives are treated as received by you if you file a joint return for the year of the distribution and for the year for which you claim the credit.

The amount of your Saver's Credit in any year cannot be more than the amount of tax that you would otherwise pay (not taking into account any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope credit, then you will not be entitled to this credit.

VII. DISTRIBUTIONS FROM YOUR ROTH IRA

Distributions from your Roth IRA can be requested at any time. You may elect to have all or a portion of your account distributed in one or a combination of the following ways:

- A partial payment;
- A lump sum payment; or
- Monthly, quarterly, or annual installment payments.

Ordering Rules for Distributions. If you receive a distribution from your Roth IRA that is not a qualified distribution, part of it may be taxable. There is a set order in which contributions, including conversion contributions, and earnings are considered to be distributed from your Roth IRA. For these purposes, the withdrawal of excess contributions and the earnings on them are disregarded. The order of distributions is as follows:

- First—Regular contributions.
- Second—Conversion contributions, on a first-in-first-out basis (generally, total conversions from the earliest year first). The taxable portion of conversion contributions are taken into account first and then the nontaxable portion.
- Lastly—Earnings on contributions.

1. QUALIFIED DISTRIBUTIONS

A qualified distribution is any payment or distribution from your Roth IRA that meets the following requirements:

- It is made after the five-taxable-year period beginning with the first taxable year for which a contribution was made to a Roth IRA set up for your benefit, and
- The distribution is (1) made on or after the date you reach age 59½, (2) made because you are disabled, (3) made to a beneficiary or to your estate after your death, or (4) used to acquire the principal residence of a first-time homebuyer, including yourself, your spouse, you or your spouse's child, grandchild, parent or other ancestor (up to a lifetime limit of \$10,000).

2. NONQUALIFIED DISTRIBUTIONS

Any distribution that is not a “qualified distribution” is considered a nonqualified distribution and the earnings portion, if any, is taxable and may be subject to the IRS 10% early distribution penalty.

3. REQUIRED MINIMUM DISTRIBUTIONS

The required minimum distribution (RMD) rules do not apply to your Roth IRA, except after your death. You are not required to take distributions from your Roth IRA. Additionally, you may not take a RMD for a Traditional IRA from your Roth IRA.

4. DEATH DISTRIBUTIONS

The distribution requirements for a beneficiary of a Roth IRA owner vary depending on who is the beneficiary.

No Designated Beneficiary or Non Living Person as Beneficiary. If you did not designate a beneficiary, it will default to your estate. When the beneficiary is not a living person, the beneficiary must close the account by December 31 of the year in which the fifth anniversary of your death occurs.

Spouse Beneficiary. A spouse beneficiary has three options:

- Your spouse may elect to treat your Roth IRA as his or her own. Once your spouse elects to treat your Roth IRA as his or her own, distributions are no longer subject to the death distribution rules.
- The five-year rule. Your spouse must close the account by December 31 of the year in which the fifth anniversary of your death occurs; or
- The life-expectancy rule. Your spouse may take the funds systematically over a period not longer than his or her own life expectancy. The distributions must begin by December 31 of the year following your death.

The election to treat your Roth IRA as your spouse's own will be deemed automatically made if your spouse does not receive a required death distribution in any calendar year following the year of your death or if any additional amounts are contributed to the Roth IRA.

Nonspouse Beneficiary. A nonspouse beneficiary has two options:

- The five-year rule. Your beneficiary must close the account by December 31 of the year in which the fifth anniversary of your death occurs; or
- The life-expectancy rule. Your beneficiary may take the funds systematically over a period not longer than his or her own life expectancy. The distributions must begin by December 31 of the year following your death.

If your nonspouse beneficiary does not make an election by December 31 of the year following your death, the life-expectancy rule will apply.

5. TAXATION OF DISTRIBUTIONS

Distributions from your Roth IRA that are “qualified distributions” are not included in your gross income and

are generally not subject to the additional 10% penalty tax on early distributions.

If a Roth IRA distribution is a nonqualified distribution, the distribution will be treated for tax purposes as first a tax-free return of your Roth IRA contributions (*see Ordering Rules for Distribution*). To the extent a nonqualified distribution, when added to all of your previous Roth IRA distributions, whether qualified or nonqualified, is attributable to earnings (*see Ordering Rules for Distribution*) it will be fully taxable.

6. RETURN OF AN EXCESS CONTRIBUTION

An excess contribution is a contribution that exceeds the amount permitted to be contributed to your Roth IRA or can also be an eligible contribution that you elect to treat as an excess contribution. An excess contribution penalty equal to 6% of the amount of any excess contribution will be assessed for the year for which the excess contribution is made and for each subsequent year until the excess amount is eliminated.

Prior to Your Tax Return Due Date. If you make an excess contribution to your Roth IRA for a taxable year, you may withdraw the excess contribution and earnings attributable to, prior to the due date for filing your federal income tax return, including extensions. If this withdrawal is made, the return of the contribution will not be subject to the 6% penalty on excess contributions. Your withdrawal of a contribution, plus attributable earnings, by your tax filing deadline would not be deemed a qualified distribution and the earnings therefore would be taxable and the 10% early distribution penalty may apply.

After Your Tax Return Due Date. If you make an excess contribution to your Roth IRA for a taxable year and you withdraw the excess contribution after the due date for filing your federal income tax return, including extensions, the returned excess contribution will not be includible in your gross income as a Roth IRA distribution (subject to possible early distribution penalties) if your total IRA contributions for the year were not more than the applicable contribution limit.

However, you must pay the 6% penalty on the excess contribution for each taxable year that it was still in your Roth IRA at the end of the year. Under this procedure, you are not required to withdraw any earnings attributable to the excess contribution.

Applying Excess Contribution to Subsequent Year. You may also eliminate an excess contribution from your

Roth IRA in a subsequent year by not contributing the maximum amount for that year and applying the excess contribution to the subsequent year's contribution.

7. DISTRIBUTION DUE TO DIVORCE OR LEGAL SEPARATION

If all or any portion of your Roth IRA is awarded to a former spouse pursuant to divorce or legal separation, such portion can be transferred to a Roth IRA in the receiving spouse's name. This transaction can be processed without any tax implications to you if the appropriate documentation is received by the Custodian, and specifically directs such transfer. You must provide a written instrument executed by a court incident to the divorce or legal separation in accordance with Section 408(d)(6). In addition, you must also provide the Custodian with a letter of instruction and account number of the Roth IRA maintained by the receiving spouse, or an IRA Adoption Agreement executed by the receiving spouse, if a new Roth IRA will be established.

8. QUALIFIED HURRICANE DISTRIBUTIONS

If you receive a qualified hurricane distribution from your Roth IRA, if it would otherwise be taxable, you may include it in your income in equal amounts over 3 years. For example, if you received a \$60,000 qualified hurricane distribution in 2006, you would include \$20,000 in your income in 2006, 2007 and 2008. However, you can elect to include the entire distribution in your income in the year it was received. You may also repay to your Roth IRA any qualified hurricane distribution.

A qualified hurricane distribution is any distribution you received from an eligible retirement plan (including a Roth IRA) if all of the following conditions apply.

- (a) The distribution was made:
 - After August 24, 2005, and before January 1, 2007, for Hurricane Katrina.
 - After September 22, 2005, and before January 1, 2007, for Hurricane Rita.
 - After October 22, 2005, and before January 1, 2007, for Hurricane Wilma.
- (b) Your main home was located in a qualified hurricane disaster area listed below on the date shown for that area:
 - August 28, 2005, for the Hurricane Katrina disaster area. For this purpose, the Hurricane Katrina disaster area includes the states of Alabama, Florida, Louisiana, and Mississippi.

- September 23, 2005, for the Hurricane Rita disaster area. For this purpose, the Hurricane Rita disaster area includes the states of Louisiana and Texas.
- October 23, 2005, for the Hurricane Wilma disaster area. For this purpose, the Hurricane Wilma disaster area includes the state of Florida.

- (c) You sustained an economic loss because of Hurricane Katrina, Rita, or Wilma and your main home was in that hurricane disaster area on the date shown in item (b) for that hurricane. Examples of an economic loss include, but are not limited to (i) loss, damage to, or destruction of real or personal property from fire, flooding, looting, vandalism, theft, wind, or other cause; (ii) loss related to displacement from your home; or (iii) loss of livelihood due to temporary or permanent layoffs.

If you meet all these conditions, you can generally designate any distribution (including periodic payments and required minimum distributions) from a Roth IRA as a qualified hurricane distribution, regardless of whether the distribution was made on account of Hurricane Katrina, Rita, or Wilma. Qualified hurricane distributions are permitted without regard to your need or the actual amount of your economic loss.

The total of your qualified hurricane distributions from all plans is limited to \$100,000. If you have distributions in excess of \$100,000 from more than one type of plan, such as a 401(k) plan and a Roth IRA, you may allocate the \$100,000 limit among the plans, any way you choose.

9. TRANSFERS TO HEALTH SAVINGS ACCOUNT

Beginning in 2007, if you are a participant in a high deductible health plan (“HDHP”), you may make a one-time transfer to your health savings account. You must be enrolled in your HDHP at the time of transfer and for one year thereafter; otherwise, the transfer may be subject to ordinary income tax and a 10% excise tax.

VIII. PROHIBITED TRANSACTIONS

If during any taxable year you engage in a so-called “prohibited transaction” with respect to your Roth IRA, the account will lose its tax-favored status. This means, generally, that the fair market value of all account assets, valued as of the first day of the taxable year, will be deemed distributed and will be taxed as ordinary income. If you have not yet reached age 59½, the 10% early distribution penalty will also be imposed on the amount includible in your gross income as a result of the prohibited transaction.

Prohibited transactions include borrowing money from your account or pledging your account or any portion thereof as security for a loan (if you pledge any portion of your account as security for a loan, only the pledged portion will be deemed distributed to you and taxed.)

IX. PENALTIES

1. 6% EXCESS CONTRIBUTION PENALTY

An excess contribution to a Roth IRA is subject to the IRS 6% penalty each tax year until corrected.

2. 10% EARLY DISTRIBUTION PENALTY

A nonqualified distribution and the earnings portion, if any, may be subject to the IRS 10% early distribution penalty. This penalty is payable with your federal income tax return filed for the year in which you receive the distribution.

If amounts converted from a Traditional IRA are withdrawn from your Roth IRA within the five-year period, starting with the year of the conversion, such amounts may be subject to the IRS 10% early distribution penalty if you are under age 59½ and no exception to the penalty applies. For purposes of applying the 10% penalty to distributions of converted amounts, a separate five-year period applies to each conversion made in different years.

Exceptions. The IRS 10% early distribution penalty may not apply if the distribution is, among other things:

- due to your death or disability;
- properly rolled over to an eligible plan;
- part of a series of substantially equal periodic payments (made at least annually) over your life expectancy or the joint life expectancy of you and your beneficiary;
- used to pay medical expenses in excess of 7.5% of your adjusted gross income;
- used to purchase medical insurance (for yourself, your spouse and your dependents) if you have received unemployment compensation under a federal or state program for at least 12 consecutive weeks and you received the distribution no later than 60 days after you have been re-employed;
- used to pay certain qualified higher education expenses for you, your spouse, or the children or grandchildren of you and/or your spouse;

- (g) used to acquire the principal residence of a first-time homebuyer, including yourself, your spouse, you or your spouse's child, grandchild, parent or other ancestor (up to a lifetime limit of \$10,000);
- (h) made to you and you are a military reservist called to active duty on or after 9/11/2001 and before 12/31/2007 for more than 179 days of active duty, if the distribution is made during the period of active duty; or
- (i) used as a qualified hurricane distribution.

3. 50% EXCESS ACCUMULATION PENALTY

If a nonspouse beneficiary does not begin receiving required distributions after your death, in accordance with the death distribution rules, your beneficiary is subject to an IRS 50% excess accumulation penalty on required amounts that he or she fails to timely withdraw. A spouse beneficiary is not subject to the 50% penalty because they are deemed to have elected to treat your Roth IRA as his or her own if the required death distributions are not timely received.

X. REPORTS TO THE IRS

There is not a special form to report contributions to your Roth IRA.

You must file IRS Form 5329 to report any penalty or additional tax owed on your Roth IRA. Reportable penalties include excess contributions or early distributions from your Roth IRA. However, if you only owe the 10% penalty on early distributions and distribution code 1 is correctly shown on your Form 1099-R, you may be able to report this penalty directly on your IRS Form 1040, without filing Form 5329. See the instructions for Form 1040.

XI. DESIGNATION OF BENEFICIARY

Under the Harbor Funds Distributors, Inc. Custodial Agreement, you may designate one or more beneficiaries to receive the balance of your account in the event of your death. If there is no effective beneficiary designation, the proceeds of the account will be paid to your estate.

XII. FEDERAL ESTATE AND GIFT TAXATION

Federal Estate Tax. Generally, amounts remaining in your Roth IRA after your death will be included in your gross estate for federal estate tax purposes.

Gift Tax. Your designation of a beneficiary (or beneficiaries) to receive assets from your Roth IRA upon your death will not be considered a transfer of property for federal gift tax purposes.

XIII. FOR MORE INFORMATION

Further information concerning Roth IRAs and IRS forms, including IRS Publication 590, *Individual Retirement Arrangements*, can be obtained from any district office of the IRS; by calling IRS Forms Distribution Center at 1-800-TAX-FORM or through the Internet at www.irs.gov.

XIV. FINANCIAL DISCLOSURE

Growth in the value of your account cannot be guaranteed or projected. However, the income and operating expenses of a mutual fund will affect the value of its shares, and hence the value of your account, as does any increase or decrease in the value of the assets of the mutual fund. Included in the information provided in the mutual fund's prospectus is information regarding current income and expenses of your mutual fund. A prospectus governed by rules of the Securities and Exchange Commission which provides information about the shares of each mutual fund available for investment by your Roth IRA must be furnished to you. Please refer to the prospectus for detailed information concerning your mutual fund. Dividends and capital gains earned on your Roth IRA contributions invested in shares of Harbor Funds will be computed and allocated on a per share basis and will be determined by the number of shares you own on the record date for such dividend or distribution.

Fees and other expenses of maintaining your account may be charged to you or your account. Fees are described in the Harbor Funds prospectuses and may be changed from time to time in accordance with the terms of the Harbor Funds Distributors, Inc. Custodial Agreement. To request a prospectus, visit our web site at www.harborfunds.com or call 1-800-422-1050.

XV. IRS APPROVAL

The form of your Roth IRA is the model form provided by the IRS known as Form 5305-RA (Roth Individual Retirement Custodial Account). For more information on Roth IRAs, please refer to IRS Publication 590 or contact the IRS.

XVI. ADDITIONAL INSTRUCTIONS

You should seek advice from your accountant or attorney regarding the tax and legal consequences (including but not limited to Federal and State tax matters) of entering into this Agreement, contributing to your Roth IRA, and ordering the Custodian to make distributions from your account. The Custodian and Harbor Funds Distributors, Inc. are prohibited by law from rendering such advice to you.

ROTH IRA CUSTODIAL AGREEMENT

This Custodial Agreement provides additional information about the Roth Individual Retirement Account (“Roth IRA”) you are establishing when you sign the IRA Adoption Agreement. You should read this Custodial Agreement together with the Roth IRA Disclosure Statement and keep them for future reference.

When you (referred to herein as the “Depositor”) sign the IRA Adoption Agreement, you are establishing a Roth IRA under section 408A of the Internal Revenue Code of 1986, as amended, to provide for your retirement and for the benefit of your beneficiaries after your death.

State Street Bank and Trust Company (referred to herein as the “Custodian”) has provided you with the Roth IRA Disclosure Statement required under Treasury Regulations section 1.408-6.

Section numbers mentioned in this Custodial Agreement are sections of the Internal Revenue Code of 1986, as amended (referred to herein as the “Code”).

You and the Custodian agree as follows:

ARTICLE I

Except in the case of a rollover contribution described in section 408A(e), a recharacterized contribution described in section 408A(d)(6), or an IRA conversion contribution, the Custodian will accept only cash contributions up to \$4,000 for tax year 2007 and \$5,000 for 2008 and thereafter. For individuals who have reached the age of 50 before the close of the tax year, the contribution limit is increased to \$5,000 for 2007, and \$6,000 for 2008 and thereafter. For tax years after 2008, the above limits will be increased to reflect a cost-of-living adjustment, if any.

ARTICLE II

1. The annual contribution limit described in Article I is gradually reduced to \$0 for higher income levels. For a single Depositor, the annual contribution is phased out between adjusted gross income (AGI) of \$101,000 and \$116,000; for a married Depositor filing jointly, between AGI of \$159,000 and \$169,000; and for a married Depositor filing separately, between AGI of \$0 and \$10,000. In the case of a conversion, the custodian will not accept IRA conversion contributions in a tax year if the Depositor’s AGI for the tax year the funds were distributed from the other IRA exceeds \$100,000 or if the Depositor is married and files a separate return. Adjusted gross income is defined in section 408A(c)(3) and does not include IRA conversion contributions.

2. In the case of a joint return, the AGI limits in the preceding paragraph apply to the combined AGI of the Depositor and his or her spouse.

ARTICLE III

The Depositor’s interest in the balance in the custodial account is non-forfeitable.

ARTICLE IV

1. No part of the custodial account funds may be invested in life insurance contracts, nor may the assets of the custodial account be commingled with other property except in a common trust fund or common investment fund (within the meaning of section 408(a)(5)).
2. No part of the custodial account funds may be invested in collectibles (within the meaning of section 408(m)) except as otherwise permitted by section 408(m)(3), which provides an exception for certain gold, silver, and platinum coins, coins issued under the laws of any state, and certain bullion.

ARTICLE V

1. If the Depositor dies before his or her entire interest is distributed to him or her and the Depositor’s surviving spouse is not the designated beneficiary, the remaining interest will be distributed in accordance with (a) below or, if elected or there is no designated beneficiary, in accordance with (b) below:
 - (a) The remaining interest will be distributed, starting by the end of the calendar year following the year of the Depositor’s death, over the designated beneficiary’s remaining life expectancy as determined in the year following the death of the Depositor.
 - (b) The remaining interest will be distributed by the end of the calendar year containing the fifth anniversary of the Depositor’s death.
2. The minimum amount that must be distributed each year under paragraph 1(a) above is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the designated beneficiary using the attained age of the beneficiary in the year following the year of the Depositor’s death and subtracting 1 from the divisor for each subsequent year.
3. If the Depositor’s surviving spouse is the designated beneficiary, such spouse will then be treated as the Depositor.

ARTICLE VI

1. The Depositor agrees to provide the Custodian with all information necessary to prepare any reports required by sections 408(i) and 408A(d)(3)(E), Regulations sections 1.408-5 and 1.408-6, or other guidance published by the Internal Revenue Service (IRS).
2. The Custodian agrees to submit to the IRS and Depositor the reports prescribed by the IRS.

ARTICLE VII

Notwithstanding any other articles which may be added or incorporated, the provisions of Articles I through IV and this sentence will be controlling. Any additional articles inconsistent with section 408A, the related regulations, and other published guidance will be invalid.

ARTICLE VIII

This agreement will be amended as necessary to comply with the provisions of the Code, the related regulations, and other published guidance. Other amendments may be made with the consent of the persons whose signatures appear on the IRA Adoption Agreement.

ARTICLE IX

The provisions of this Article IX supplement the prior Articles which constitute Internal Revenue Service Form 5305-RA (Roth Individual Retirement Custodial Account).

1. INVESTMENT OF ASSETS

All assets held in your Roth IRA will be invested in shares of Harbor Funds or any other investment permitted under section 408(a) of the Code which the Custodian permits as an investment under this Agreement (“Other Investments”). The Custodian shall be entitled to rely completely on investment instructions furnished by you and shall have no duty or obligation to question such investment instructions. You acknowledge that the Custodian does not undertake to render any investment advice and that the Custodian is not responsible for any loss which results from your (or, following your death, your beneficiary’s) exercise of (or failure to exercise) investment control.

2. CUSTODIAL ACCOUNT

- (a) This Agreement will become effective when it is accepted by the Custodian. The Custodian will open a separate custodial account for you and invest your contributions in accordance with your written

instructions in the Adoption Agreement and in accordance with any subsequent directions given in the form and manner acceptable to the Custodian by you (or, following your death, by your beneficiary). How your contributions are invested is your decision. The only requirement is that you choose only from the funds offered by Harbor Funds Distributors, Inc. The funds offered may change from time to time. Neither Harbor Funds Distributors, Inc. nor the Custodian renders any investment advice whatsoever nor is responsible for your investment decisions. The Custodian’s only duties are those stated in Article IX, paragraph 4. If any of your investment instructions are not received as required or are, in the opinion of the Custodian, unclear, the Custodian may either return the contribution to you or may not invest some or all of your contribution until additional written instructions or a clarification is received from you. In that case, the Custodian shall not be liable for lost interest or for loss of income or appreciation or any other loss during the period it is waiting for your written instructions or clarification.

- (b) All dividends and other distributions received by the Custodian on shares of any Harbor Funds held in your Roth IRA shall be reinvested in additional shares of such Harbor Funds unless you direct the Custodian, in the form and manner acceptable to the Custodian, to invest such dividends and other distributions in accordance your instructions. Dividends, capital gains, interest or any other distributions received with respect to Other Investments held in your Roth IRA shall be reinvested in accordance with your written instructions in the Adoption Agreement or in subsequent instructions furnished to the Custodian in the form and manner acceptable to the Custodian.
- (c) All assets held in your Roth IRA will be registered in the name of the Custodian for your benefit. The Custodian shall deliver, or cause to be delivered, to you all notices, prospectuses, financial statements, proxies, and proxy soliciting materials it receives relating to the Harbor Funds shares or Other Investments held in your Roth IRA. The Custodian shall not vote any such shares except in accordance with written instructions received from you.

3. DISTRIBUTIONS

- (a) The Custodian does not have any responsibility to make any distributions from your Roth IRA until the Custodian receives written instructions signed by you (or your beneficiary if you are deceased). Your

written instructions must specifically tell the Custodian when to make a distribution, the form of distribution, and any declaration required by this Agreement or regulations under the Code. Also, you must give the Custodian all applications, certificates, tax waivers, signature guarantees, and other documents (including proof of your legal representative's authority if your legal representative is signing for you) that the Custodian requests before the Custodian will make any distribution or honor any assignment of your Roth IRA. The Custodian will not be responsible for complying with instructions that appears on its face to be genuine, or for refusing to comply if it does not think that an instruction is genuine. It is not the Custodian's responsibility to determine whether instructions are genuine.

- (b) Distribution of the assets of your Roth IRA shall be made at such time and in such form as you (or your beneficiary if you are deceased) shall elect by written order to the Custodian. You acknowledge that any distribution (except for distributions due to disability or death, return of an "excess contribution" referred to in section 408(d) of the Code, or a "rollover" from this Roth IRA or as otherwise may be permitted by law) made earlier than age 59½ may subject you to an "additional tax on early distributions" under Code Section 72(t). You will be considered disabled if you can prove, as provided in Code Section 72(m)(7), that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or be of long-continued and indefinite duration.
- (c) You acknowledge (i) that any withdrawal from your Roth IRA will be reported by the Custodian in accordance with applicable IRS requirements (currently, on Form 1099-R), (ii) that the information reported by the Custodian will be based on the amounts in your Roth IRA and will not reflect any other individual retirement accounts that you may own and that, consequently, the tax treatment of the withdrawal may be different than if you had no other individual retirement accounts, and (iii) that, accordingly, it is your responsibility to maintain appropriate records so that you (or other person ordering the distribution) can correctly compute all taxes due.
- (d) The Custodian assumes no responsibility for the tax treatment of any distribution from this Roth IRA; it is your (or your beneficiary if you are deceased)

responsibility to determine what such tax treatment will be. It is your responsibility to make sure that you do not request (or your legal representative does not request for you) a distribution from the Custodian too early or too late to cause a penalty. The Custodian is not responsible for keeping track of this for you and is not responsible for the early distribution additional tax or the late distribution additional tax if distributions are not made according to the IRS rules.

- (e) The term "beneficiary" means the person or persons you designate to receive your Roth IRA after your death. Such designation must be in writing in a form acceptable to the Custodian. You must sign the designation and it must be filed with the Custodian. You may designate individuals, trusts, estates, or other entities as either primary or contingent beneficiaries. However, if the designation does not effectively dispose of the entire Roth IRA as of the time distribution is to commence, the term "beneficiary" shall then mean your estate with respect to the assets of your Roth IRA not disposed of by your designation. The designation last accepted by the Custodian before such distribution is to commence, provided it was received by the Custodian (or deposited in the U.S. Mail or with a reputable delivery service) during the designating person's lifetime shall be controlling and, whether or not it fully disposes of your Roth IRA, thereupon shall revoke all such designations previously filed. (**Note:** Married individuals who reside in a community property or marital property state (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington or Wisconsin), may need to obtain spousal consent if they have not designated their spouse as the primary beneficiary for at least half of their Roth IRA. Consult an attorney or other tax professional for additional information and advice.

Your beneficiary has no interest in your Roth IRA while you are living.

- (f) Notwithstanding paragraph 3 of Article V, if the Depositor's spouse is the sole beneficiary, the Depositor's spouse may elect not to be treated as the Depositor, in which case paragraphs 1 and 2 of Article V shall apply.

4. CUSTODIAN'S RESPONSIBILITIES

- (a) The Custodian will keep records of activity in your account. Not later than 60 days after the close of

each calendar year or after the Custodian's resignation or removal pursuant to Article IX, paragraph 5, you will receive a written report showing the transactions in your account during the preceding calendar year and the assets in your Roth IRA. Unless you send a written objection about something in the report to the Custodian within 60 days after the Custodian issued the report, the report will be considered to be correct, and the Custodian shall have no responsibility for any of the transactions reported in it.

- (b) The Custodian is also required to send reports regarding your Roth IRA and its assets to the Internal Revenue Service and to you.
- (c) The Custodian is acting on your behalf with respect to your Roth IRA. However, neither Harbor Funds Distributors, Inc. nor the Custodian is a fiduciary. The Custodian will not be liable (and assumes no responsibility) for the collection of contributions that you make to your Roth IRA. It will also not look into the purpose for which any distribution you request is used.
- (d) You will always fully indemnify Harbor Funds Distributors, Inc. and the Custodian and save either or both of them harmless from any and all liability that may arise either (i) in connection with this Agreement and matters which it contemplates, except for liability that arises due to the negligence or willful misconduct by Harbor Funds Distributors, Inc. or the Custodian, or (ii) with respect to making or failing to make any distribution, other than for failure to make a distribution that you request. The Custodian is not obligated or expected to commence or defend any legal action or proceeding in connection with this Agreement or such matters unless the Custodian and you agree to do so and the Custodian is fully indemnified for doing so to its satisfaction.
- (e) With the consent of Harbor Funds Distributors, Inc., the Custodian may delegate to Harbor Funds Distributors, Inc. or an affiliate of Harbor Funds Distributors, Inc. certain administrative and ministerial duties and Harbor Funds Distributors, Inc. or such affiliate will have the full benefit of the terms of this Agreement to the extent such provisions apply to the Custodian.
- (f) The Custodian and Harbor Funds Distributors, Inc. may conclusively rely upon and shall be protected in acting upon any written order from or authorized by you (or your beneficiary, if you are deceased) or any

other notice, request, consent, certificate or other instrument, paper, or other communication whether or not in writing believed by the Custodian or Harbor Funds Distributors, Inc. or its affiliates to be genuine and to have been issued in proper form and with proper authority, and, so long as they act in good faith, in taking or omitting to take any other action in reliance thereon.

5. RESIGNATION OR REMOVAL OF CUSTODIAN

- (a) The Custodian is State Street Bank and Trust Company, a qualified financial institution, or such successor custodian as appointed hereunder. The Custodian may resign at any time upon at least 30 days' prior written notice to you, and may be removed by you at any time upon at least 30 days' prior written notice to the Custodian. Upon such resignation or removal, you or Harbor Funds Distributors, Inc. shall appoint a successor custodian to serve under this Agreement. Upon receipt by the Custodian of written acceptance of such appointment by the successor custodian, the Custodian shall transfer to such successor the assets of your Roth IRA and all necessary records (or copies thereof) pertaining thereto, provided that (if so requested by Custodian) any successor custodian agrees not to dispose of any such records without the Custodian's consent. The Custodian is authorized, however, to reserve such a portion of such assets as it may deem advisable for payment of all its fees, compensation, costs, and expenses, or for payment of any other liabilities constituting a charge on or against the assets of the Roth IRA or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to the successor custodian.
- (b) If within 30 days after the Custodian's resignation or removal or such longer time as the Custodian may agree to, you or Harbor Funds Distributors, Inc. has not appointed a successor custodian which has accepted such appointment, the Custodian shall terminate your Roth IRA pursuant to Article IX, paragraph 7.
- (c) Neither Harbor Funds Distributors, Inc. nor the Custodian shall be liable for the acts or omissions of such successor custodian.
- (d) The Custodian, and every successor custodian appointed to serve under this Agreement, must be a bank as defined in Code section 408(n) or such other person who qualifies to serve in the manner prescribed

by Code section 408(a)(2) and satisfies you or Custodian, upon request, as to such qualification.

- (e) After the Custodian has transferred your Roth IRA assets (including any reserve balance as contemplated above) to the successor custodian, the Custodian shall be relieved of all further liability with respect to this Agreement, your Roth IRA, and the assets thereof.
- (f) You delegate to Harbor Funds Distributors, Inc. the powers reserved to you under this paragraph 5, but without prejudice to you to exercise such powers.

6. AMENDMENT

- (a) You delegate to the Custodian your right to so amend, including retroactively, as necessary or appropriate in the opinion of counsel satisfactory to the Custodian, in order to conform with pertinent provisions of the Code and other laws or successor provisions of law or to obtain a governmental ruling that such requirements are met, or as otherwise may be advisable in the opinion of such counsel. Such an amendment by the Custodian shall be communicated in writing to you, and you shall be deemed to have consented thereto unless, within 30 days after such communication to you is mailed, you either (i) give the Custodian a proper written order for a lump sum distribution of the custodial account, or (ii) remove the Custodian and simultaneously appoint a successor custodian under Article IX, paragraph 5.
- (b) You also delegate to Harbor Funds Distributors, Inc. your right to so amend, including retroactively, as necessary or appropriate in the opinion of counsel satisfactory to the Harbor Funds Distributors, Inc., in order to conform with pertinent provisions of the Code and other laws or successor provisions of law or to obtain a governmental ruling that such requirements are met, to adopt a prototype or master plan (when one becomes available) for investment in shares of such mutual fund or other investments, or as otherwise may be advisable in the opinion of such counsel. Such amendment shall be communicated in writing to you and the Custodian, and you shall be deemed to have consented thereto unless, within 30 days after such communication to you is mailed, you give the Custodian a proper written order for a lump sum distribution of the custodial account. The Custodian shall be deemed to have consented to such Amendment unless, within 30 days after such communication, the Custodian resigns pursuant to Article IX, paragraph 5.

- (c) This paragraph 6 shall not be construed to restrict the Custodian's freedom to agree with Harbor Funds Distributors, Inc. upon the terms by which additional shares of Harbor Funds, or shares of other mutual funds or Other Investments may be chosen for investment as contemplated in Article IX, paragraph 1, or the Custodian's freedom to change fee schedules in the manner provided by Article IX, paragraph 9, and no such agreement or change shall be deemed to be an amendment of this Agreement.

7. TERMINATION

- (a) The Custodian shall terminate your Roth IRA if, within the time specified in Article IX, paragraph 5(b), you or Harbor Funds Distributors, Inc. has not appointed a successor custodian which has accepted such appointment. Termination of your Roth IRA shall be effected by distributing all assets thereof in a lump sum in cash or in kind to you, subject to the Custodian's right to reserve funds as provided in Article IX, paragraph 5(a).
- (b) Upon termination of your Roth IRA, this Agreement shall terminate and have no further force and effect, and Harbor Funds Distributors, Inc. and the Custodian shall be relieved from all further liability with respect to this Agreement, your Roth IRA, and all assets thereof so distributed.

8. LIQUIDATION OF THE CUSTODIAL ACCOUNT

- (a) Notwithstanding anything contained in this Agreement to the contrary, if the value of your Roth IRA is less than the minimum value established on a non-discriminatory basis from time to time, Harbor Funds Distributors, Inc. shall have the right to direct the Custodian, by written order to the Custodian, to liquidate your Roth IRA. Upon receipt of such written order, the Custodian shall, as soon as practicable, proceed to liquidate your Roth IRA by distributing all assets subject to such order in a lump sum in cash or in kind to you, subject to the Custodian's right to reserve such a portion of such assets as it may deem advisable for payment of all its fees, compensation, costs, and expenses, or for payment of any other liabilities constituting a charge on or against the assets of your Roth IRA or on or against the Custodian, with any balance of such reserve remaining after the payment of all such items to be paid over to you. Harbor Funds Distributors, Inc. shall have no duty to make such order to liquidate the custodial account. Moreover, if such order is made, it may be made with respect to any specified

accounts, either singly or as a group, to which the order may be applicable.

- (b) Neither Harbor Funds Distributors, Inc. nor the Custodian shall be liable for, or in any way responsible with respect to, any penalty or any other loss incurred by any person with respect to a distribution made hereunder and upon liquidation of your Roth IRA as aforesaid, this Agreement shall terminate and have no further force and effect, and the Custodian and Harbor Funds Distributors, Inc. shall be relieved from all further liability with respect to this Agreement, your Roth IRA, and all assets thereof so distributed.

9. CUSTODIAN'S FEES

The Custodian shall be entitled to receive such reasonable fees with respect to the establishment and administration of this Roth IRA as it establishes from time to time. The Custodian's fees, any income, gift, estate and inheritance taxes and other taxes of any kind whatsoever, that may be levied or assessed in respect to such assets, and all other administrative expenses incurred by the Custodian in the performance of its duties including fees for legal services rendered to the Custodian, may be charged either to your Roth IRA, with the right to liquidate investments for this purpose, or to you. The Custodian may change its fee schedule upon 30 days' prior written notice to you.

10. MISCELLANEOUS

- (a) References herein to the "Internal Revenue Code" or "Code" and sections thereof shall mean the same as amended from time to time hereafter, including successors to such sections.
- (b) Except where otherwise specifically required in this Agreement, any notice from the Custodian to any person provided for in this Agreement shall be effective if sent by regular mail or electronic means to such person at that person's last address on the Custodian's records.
- (c) This Agreement is accepted by the Custodian and shall be construed and administered in accordance with the laws of the Commonwealth of Massachu-

setts. This Agreement is intended to qualify under sections 408 and 408A of the Code as a Roth Individual Retirement Account, and if any provision hereof is subject to more than one interpretation or any term used herein is subject to more than one construction, such ambiguity shall be resolved in favor of that interpretation or construction which is consistent with that intent. However, the Custodian and Harbor Funds Distributors, Inc. shall not be responsible for whether or not such intentions are achieved through use of this Agreement, and you are referred to your attorney for any such assurances.

- (d) If the Depositor is a minor under the laws of his or her state of residence, then a parent or guardian shall exercise all powers and duties of the Depositor, as indicated herein, and shall sign the IRA Adoption Agreement on behalf of the minor. The Custodian's acceptance of the IRA on behalf of any Depositor who is a minor is expressly conditioned upon the agreement of the parent or guardian to accept the responsibility to exercise all such powers and duties, and all parties hereto so acknowledge. Upon attainment of the age of majority under the laws of the Depositor's state of residence at such time, the Depositor may advise the Custodian in writing (accompanied by such documentation as the Custodian may require) that he or she is assuming sole responsibility to exercise all rights, powers, obligations, responsibilities, authorities or requirements associated with the IRA. Upon such notice to the Custodian, the Depositor shall have and shall be responsible for all of the foregoing, the Custodian will deal solely with the Depositor as the person controlling the administration of the IRA, and the Depositor's parent or guardian thereafter shall not have or exercise any of the foregoing. Absent such written notice from the Depositor, Custodian shall be under no obligation to acknowledge the Depositor's right to exercise such powers and authority and may continue to rely on the parent or guardian to exercise such powers and authority until notified to the contrary by the Depositor.

GLOSSARY OF TERMS

Active Participant. As defined under *IRC Sec. 219(g)(5)*, an active participant is an individual who is a participant in one of the following employer-sponsored qualified retirement plans for any part of the applicable year:

1. a qualified pension, profit sharing or stock bonus plan (*IRC Sec. 401(a)*);
2. a qualified annuity plan (*IRC Sec. 403(a)*);
3. a simplified employee pension (SEP) plan (*IRC Sec. 408(k)*);
4. a savings incentive match plan for employees (SIMPLE) plan (*IRC Sec. 408(p)*);
5. a plan established for its employees by the United States, by a state or political subdivision or by an agency or instrumentality of the United States or a state or political subdivision (other than a plan under *IRC Sec. 457*);
6. a plan described in *IRC Sec. 501(c)(18)*; or
7. a tax-sheltered annuity (*IRC Sec. 403(b)*).

Adjusted Gross Income (AGI). Adjusted gross income (AGI) is determined when a taxpayer calculates income tax liability on his or her federal income tax return. AGI is determined by adding all sources of income such as wages and interest income and subtracting certain deductions and adjustments to income.

Adjusted Net Business Income. The net business income from a self-employed individual's Schedule C, Schedule K-1 or Schedule F must be "adjusted" using a formula to determine the compensation upon which to base a contribution to a SEP.

Beneficiary. A beneficiary is a person or entity to receive the IRA proceeds when the IRA holder dies.

Carryback Contribution. A contribution made to a Roth or Traditional IRA between January 1 and April 15 for the prior tax year is called a carryback contribution.

Catch-Up Contribution. If you are age 50 before the end of the taxable year, you may make a catch-up contribution each year, in addition to your annual contribution.

Collectibles. Collectibles are a group of investment vehicles, which cannot be used for IRA funds, such as gold, silver, jewelry, rugs, alcoholic beverages and paintings. If IRA assets are invested in collectibles, the investment is treated as a distribution of an amount equal to the cost of the investment.

Commingling. Commingling occurs when qualified retirement plan assets are rolled into an IRA with other IRA con-

tributions. Commingling of IRA and qualified retirement plan funds in an IRA affects the conduit status of the IRA.

Compensation. Compensation is usually broadly defined to include. But is not limited to, base salary, commissions, bonuses, overtime and vacation pay.

Conduit IRA. A conduit IRA is an IRA that receives assets from a qualified retirement plan or 403(b) plan distribution and where the IRA holder intends to rollover those funds into another qualified retirement plan or 403(b) plan in the future.

Conversion. A conversion is a taxable movement of cash or other assets from a Traditional IRA to a Roth IRA. A conversion is a reportable transaction.

Custodian. The custodian is a bank or savings and loan association, as defined in IRC Section 408(n), or any person who has the approval of the IRS to act as custodian.

Death Benefits. Death Benefits are payments to a beneficiary of a deceased IRA holder.

Designated Roth Contribution. A designated Roth contribution is an elective deferral to a section 401(k) or 403(b) plan that has designated irrevocably by an employee as not excludable from the employee's gross income and to be deposited into a designated Roth account under the plan. The contribution is treated by the employer as includible in the employee's gross income at the time the employee would have received the amount in cash if the employee had not made the election.

Direct Conversion. A direct conversion is a Traditional IRA distribution that is remitted directly to the trustee, custodian or issuer of the receiving Roth IRA. The IRA holder does not have actual receipt of funds.

Direct Rollover. A direct rollover is a qualified retirement plan or 403(b) plan distribution that is remitted directly to the trustee, custodian or issuer of the receiving Traditional IRA (similar to a transfer transaction) and is reported to the IRS as a rollover.

Disclaimer. A Traditional or Roth beneficiary may disclaim an interest in an IRA, as allowed under *IRC Sec. 2518* and illustrated in *Treas. Reg. 25.2518*. A valid disclaimer is a permanent action that would allow an individual to give up rights to property to which he or she is currently entitled. Certain rules must be met for the disclaimer to be valid.

Early Distribution. Distributions taken from a Traditional or Roth before the IRA holder reaches age 59½ are called early distributions. Early distributions are generally subject to

a 10% IRS penalty unless an exception to the penalty applies as defined in IRC Sec. 72(t).

Under a Roth IRA, a 10% early distribution penalty applies to the non-qualified distribution of earnings, unless the IRA holder meets one of the exceptions to the penalty. A 10% early distribution penalty also applies to the portion of a non-qualified distribution of conversion basis if it is distributed within five years of the conversion. This penalty may also be avoided if the Roth IRA holder meets one of the exceptions.

Earned Income. If someone has earned income from working (services rendered), he or she may make a Traditional or Roth IRA contribution. An individual may not make a regular contribution to a Traditional IRA in his or her 70½ year or later, even if he or she has earned income.

Eligible Rollover Distribution. A distribution from a qualified retirement plan, a 403(b) plan, or a governmental 457(b) plan which is eligible to be rolled over (either directly or indirectly) to a Traditional IRA or another eligible retirement plan.

Excess Accumulation. Under *IRC Sec. 4974*, if the amount distributed to an individual during a taxable year is less than the required minimum distribution for the year, the individual will be subject to an excess accumulation penalty of 50% of the amount of the distribution which should have been taken but was not. This penalty applies to Traditional IRA holders and their beneficiaries.

Excess Contribution. The amount of an IRA contribution exceeding the allowable limits is an excess contribution. If an excess contribution is not properly corrected, a six% IRS penalty applies.

Fair Market Value (FMV). The fair market value is the value of a Traditional or Roth IRA as of a certain date. The December 31 fair market value must be provided to each IRA holder and to the IRS each year.

Federal Deposit Insurance Corporation (FDIC). The Federal Deposit Insurance Corporation (FDIC) insures accounts of all banks chartered by the federal government, most banks chartered by state governments and savings associations.

First-Time Homebuyer. A first time homebuyer is an individual (and, if married, the individual's spouse) who had no present ownership interest in a principal residence during the two-year period ending on the date of acquisition of the principal residence.

401(k) Plan. An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan. (i.e., profit-sharing, stock bonus plan or money purchase pension plan)

403(b) Plan. An employer-sponsored retirement plan that enables employees of universities, public schools, and non-profit organizations to make tax-deferred contributions from their salaries to the plan.

457 Plan. An employer-sponsored retirement plan that enables employees of state and local governments and other tax-exempt employers to make tax-deferred contributions from their salaries to the plan.

Indirect Conversion. An indirect conversion occurs when a Traditional IRA holder requests and constructively receives a distribution from his or her Traditional IRA and deposits the amount in a Roth IRA within 60 days.

Indirect Rollover. An indirect rollover occurs when an individual receives an eligible rollover distribution and within 60 days recontributes the amount to an eligible plan.

Individual Retirement Account (IRA). An individual retirement account (IRA) is an investor-established account to provide retirement benefits for yourself and for the benefit of your beneficiaries after your death.

Internal Revenue Code (IRC). The Internal Revenue Code of 1986, as amended, is the basic federal tax law.

Internal Revenue Service (IRS). The Internal Revenue Service is an agency of the Department of Treasury, which is headed by the Commissioner of Internal Revenue. The IRS interprets and enforces the tax laws.

Life Expectancy. The number of years an individual is expected to live based on his or her current age is the life expectancy of the individual. Life expectancy is most commonly used to determine the amount an individual must take as a required minimum distribution from an IRA.

Modified Adjusted Gross Income (MAGI). This figure represents adjusted gross income before certain deductions or adjustments to income are taken. MAGI is used to determine eligibility to contribute to a Roth IRA and to determine deductibility of Traditional IRA contributions made by an active participant.

Mutual Fund. An investment company that stands ready to buy back its shares at their current net asset value, which is the total market value of the fund's investment portfolio divided by the number of shares outstanding. Most mutual funds continuously offer new shares to investors.

Net Business Income (NBI). A self-employed person can base an IRA contribution on his or her net business income taken from the Schedule C.

Net Income Attributable (NIA). The amount of income earned by an excess or recharacterized contribution to an IRA.

Nondeductible Contribution. For a Traditional IRA holder, a nondeductible contribution is a contribution made to a Traditional IRA and designated by a Traditional IRA holder as nondeductible either by choice or because of ineligibility to make a deductible contribution. A Traditional IRA holder does not take a deduction for this contribution. A nondeductible contribution may be made to the extent that a deductible contribution is not made. The Traditional IRA holder must file a Form 8606, *Nondeductible IRA's (Contributions, Distributions, and Basis)*, if a nondeductible contribution is made. Only nondeductible contributions may be made to Roth IRA's.

Nonperiodic Payment. Distributions from an IRA that are payable on demand are treated as nonperiodic payments. The amount and frequency of distributions are arbitrary.

Nonqualified Distributions. If a distribution from a Roth IRA is not a qualified distribution (see "qualified distribution"), any earnings from the distribution from the Roth IRA will be subject to taxes and, unless the Roth IRA holder meets an exception, subject to the 10% early distribution penalty. In addition, any conversion basis distributed within five years of the year of the conversion will be subject to the 10% early distribution penalty unless the IRA holder meets an exception.

Nonrecalculation. Nonrecalculation is a method used to calculate life expectancy for required minimum distributions taken from Traditional IRA's. Under nonrecalculation, the IRA holder or beneficiary determines a life expectancy divisor and subtracts one from the divisor in each succeeding year to establish a new life expectancy divisor.

Ordering Rules. The prescribed order in which Roth IRA assets (contributory basis, conversion basis or Roth IRA earnings) are deemed to be withdrawn.

1. Regular contributions.
2. Conversion contributions, on a first-in-first-out basis (generally, total conversions from the earliest year first). The taxable portion of conversion contributions are taken into account first and then the nontaxable portion.
3. Earnings on contributions.

Periodic Payment. Distributions made in regular installment intervals, over the period of one full year are periodic. The intervals may be monthly, quarterly or annually.

Plan Agreement. The plan agreement sets forth the terms and conditions of the IRA and is the controlling contact. The plan agreement along with other required documents creates the IRA.

Prohibited Transaction. A prohibited transaction is a transaction between a Traditional or Roth IRA and a party in interest (referred to as disqualified person), which is prohibited under IRC Sec. 4975.

These actions include taking a loan from the IRA, pledging or assigning the IRA as security for a debt and investing the IRA funds into collectibles, etc.

Prospectus. The official document that describes a mutual fund to prospective investors. The prospectus contains information required by the SEC, such as investment objectives and policies, risks, services, and fees.

Qualified Distribution. A Roth IRA distribution is a qualified distribution if the distribution represents assets that satisfy the five-year waiting period (beginning with the first taxable year for which the Roth IRA holder made a contribution) and one of the following events occur: attainment of age 59½, disability, the purchase of a first home or death.

Qualified Domestic Relations Order (QDRO). A qualified domestic relations order (QDRO), created by the Retirement Equity Act of 1984, is an order entered by a court pursuant to state domestic relations law, which relates to the payment of child support and/or alimony or the division or marital property from qualified retirement plan or 403(b) plan assets. A QDRO has the effect of allowing payment of a participant's benefit to an alternate payee, including the participant's spouse, former spouse or dependent.

Recalculation. Recalculation is a method used to determine the life expectancy when calculating required minimum distributions. The current age of a Traditional IRA holder, is compared to Unisex Tables to arrive at life expectancy for each year a distribution is required. The life expectancy of a spouse beneficiary may also be recalculated.

Recharacterization. A recharacterization is a reportable transfer of a contribution or conversion, in whole or in part, plus earnings, from a Traditional IRA to a Roth IRA or vice versa (Treas. Reg. 1.408A-5).

Reconversion. A reconversion is a conversion of an amount from a Traditional or SIMPLE IRA to a Roth IRA, where such amount had previously been converted and recharacterized.

Redesignation. An individual who makes an excess contribution to a Traditional IRA for a given tax year may apply the contribution to the next tax year by means of redesignation. Redesignation does not dismiss the excess penalty, but allows an individual to leave funds in the IRA. Also, an IRA holder may recharacterize a Traditional IRA contribution to a Roth IRA or vice versa by redesignating the IRA contribution.

Required Beginning Date (RBD). The required beginning date is usually April 1 following the year a Traditional IRA holder reaches age 70½.

Required Minimum Distribution (RMD). Each year, Traditional IRA holders must take required minimum distributions from their Traditional IRA, beginning April 1 of the year after the year in which they reach 70½.

Rollover. A tax free, reportable movement of cash or other assets from one retirement plan to another is a rollover.

Roth IRA. The Roth IRA, created by the enactment of the Tax reform Act of 1997 is a type of IRA that can only receive nondeductible contributions. A Roth IRA holder may be entitled to tax and penalty free distributions, provided certain rules are met.

Securities and Exchange Commission (SEC). The primary U.S. government agency responsible for the regulation of the day-to-day operations and disclosure obligations of mutual funds.

Simplified Employee Pension. A simplified employee pension (SEP) plan is a pension plan established by a business where contributions are deposited into participants' IRA's and are tax deductible by the employer. Any employer, including a sole proprietor with no employees, can establish a SEP for the benefit of all eligible employees.

Spousal Consent. When an IRA holder wished to name someone other than or in addition to his or her spouse as pri-

mary beneficiary of the IRA, spousal consent is generally required in states maintaining community or marital property laws.

Spousal Contributions. Spousal contributions are limited to the lesser of \$5,000 or the couple's combined earned income less the amount contributed for the compensated spouse. Potentially, \$10,000 could be contributed between the two IRA's, as long as no more than \$5,000 is contributed to either IRA. To make a spousal contribution to a Traditional IRA, the IRA holder must be under age 70½, file a joint tax return with spouse and between the IRA holder and spouse have earned income. To make a spousal contribution to a Roth IRA, the IRA holder must file a joint tax return with spouse, have earned income between the IRA holder and the spouse, and together with spouse have MAGI within the income limits.

Transfer. A transfer is a tax-free, non-reportable movement of assets between Traditional IRA's or Roth IRA's from one trustee, Custodian or issuer to another trustee, custodian or issuer. The IRA holder does not have actual receipt of the funds.

Withholding. Withholding generally means federal income tax withholding on distributions. All distributions from IRA's, that are payable on demand are deemed nonperiodic distributions and are subject to a withholding rate of 10% (unless the individual taking the distribution elects to have more than 10% withheld or elects to have nothing withheld). The nature of payable on demand requires that an individual have the ability to request a partial or total distribution from the IRA at any time.

A Message from the Custodian of your Retirement Account:

State Street Bank and Trust Company is pleased to be the custodian for your retirement account. We recognize the importance of safeguarding the nonpublic personal information of our retirement account customers. Our policies and practices are designed to achieve this goal.

We collect nonpublic personal information about our retirement account customers from the following sources:

- Information we receive from you on applications or other forms, such as name, address, age, social security number, and name of beneficiary; and
- Information about your transactions with us, our affiliates and others, such as the purchase and sale of securities and account balances.

We do not disclose nonpublic personal information about our present or former retirement account customers to third parties, except as permitted by law.

We restrict access to nonpublic personal information about our retirement account customers to employees and service providers involved in administering and servicing retirement accounts. We maintain physical, electronic, and procedural safeguards that comply with federal standards to guard the nonpublic personal information of our retirement account customers.

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Harbor Funds

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