



Harbor Large Cap Value Fund



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2nd Quarter, 2017 Commentary

"From time-to-time, market conditions can create a tailwind to short-term performance. The second quarter was one such period." -Aristotle Capital Management, LLC

Fund surpasses market gains

U.S. stocks climbed higher in the second quarter in an environment of rising interest rates, falling oil prices, and political uncertainty as corporate earnings exceeded expectations. There was a significant rotation in sector dominance, as Energy stocks declined and Health Care companies led the pack. Value stocks lagged growth across all market-cap ranges for the second consecutive quarter, following a strong 2016 for value stocks.

The Harbor Large Cap Value Fund advanced 3.91% during the second quarter of 2017, outperforming its benchmark, the Russell 1000® Value Index, which rose 1.34%. Overall, both stock selection—which was positive in seven of the nine sectors in which the Fund invested—and sector allocations boosted relative performance during the quarter.

Stock selection in Information Technology was a primary driver of the Fund's outperformance. Positions in Paypal, which now has more than 200 million active users of its payment platform, and engineering software firm Ansys were significant individual contributors within the sector. The Manager believes Ansys has sustainable competitive advantages in a business where demand could rise, due to the importance of the cost-effective design of smart products.

An overweight and stock selection in Health Care, the benchmark's strongest sector for the period, also aided relative performance. Hospital supplier Baxter International and drugmaker AbbVie were among the top overall contributors. The Fund's underweight in Energy and lack of exposure to Telecommunication Services, the two weakest sectors in the benchmark by a significant margin, also bolstered relative results.

In contrast, stock selection in the Consumer Staples and Utilities sectors weighed on relative performance. Food retailer Kroger, a Consumer Staples holding, was a key detractor. Share prices declined sharply after the company reported weak quarterly results, followed by news that Amazon.com will purchase Whole Foods. The Manager believes that the company's depressed results will reverse over time, and that while Kroger's competition with Whole Foods is limited, the situation bears careful monitoring.

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

HIGHLIGHTS

Market Conditions Produce Tailwinds

Our process is not dependent on specific market conditions. We focus our intellectual capital on understanding long-term business values, independent of market conditions. That said, from time-to-time, market conditions can create a tailwind to short-term performance. The second quarter was one such period. Our underweight in Energy and overweight in Health Care proved to be substantial tailwinds.

An Opportunity in Product Development

During the quarter, we added shares of engineering software company Ansys to the portfolio. The company creates platforms where manufacturers can develop and test new products virtually, greatly reducing research and development costs and increasing product effectiveness.



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Given the notoriety and highly publicized failures some consumer electronics firms have faced recently, many of them could have benefitted from using the technology platform offered by Ansys.

Locating Value in an Index World

The impact of the popularity of passive index funds has skewed valuations, particularly for very large businesses. As funds flow into market-cap-weighted indexes, investment flows into larger businesses to a greater extent, driving their prices higher. We have been able to find greater values away from those top few companies by focusing our attention on businesses not caught up in the "index rally."

Total Returns

As of 06/30/2017

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Gross
Harbor Large Cap Value Fund - INST	3.91%	22.58%	10.61%	16.52%	7.21%	0.68%	0.73%
Russell 1000® Value Index	1.34%	15.53%	7.36%	13.94%	5.57%		

Sectors: As of 06/30/2017, the Harbor Large Cap Value Fund had invested the following percentages of its assets in the sectors listed: Financials, 20.81%; Health Care, 17.17%; Information Technology, 13.14%; Consumer Staples, 12.06%; Energy, 7.71%; Materials, 7.12%; Consumer Discretionary, 7.05%; Industrials, 5.21%; Utilities, 3.38%;

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

Performance figures discussed in any of the Manager Commentaries reflect that of the Institutional Class shares.

This information should not be considered as a recommendation to purchase or sell a particular security. The holdings or sectors mentioned may change at any time and may not represent current or future investments. As of 6/30/2017, the Harbor Large Cap Value Fund held the following positions referenced as a percentage of the Fund's total net assets: Baxter International Inc. - 3.17%; AbbVie Inc. - 2.59%; ANSYS Inc. - 2.18%; PayPal Holdings Inc. - 1.96%; Kroger Co. - 1.79%.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund are contractually capped, excluding interest expense (if any), through 02/28/2018.

The Russell 1000® Value Index is an unmanaged index generally representative of the U.S. market for larger capitalization value stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 1000® Value Index and Russell® are trademarks of Frank Russell Company.

Since the Fund typically invests in a small number of stocks, an adverse event affecting a particular company may hurt the Fund's performance more than if it had invested in a larger number of companies.

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

At times, a value investing style may be out of favor with investors which could cause value securities to underperform growth or other equity securities.

Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions.

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

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

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