Harbor Large Cap Value Fund

Richard E. Helm, CFA

4th Quarter, 2011 Commentary

"Cash flows and dividends are rising and high volatility could provide buying opportunities." -Rick Helm

Macroeconomic woes could weigh on earnings growth rates

Global economic weakness, especially in Europe, could prove to be a drag on the pace of corporate earnings growth in the year ahead, in the view of Rick Helm, Portfolio Manager of the Harbor Large Cap Value Fund. In such an environment, he notes, U.S. companies with characteristics such as limited reliance on overseas sales and an ability to raise dividends could enjoy favor with equity investors.

Helm expects financial markets to continue to experience high volatility in the year ahead. Market swings could translate into opportunities to initiate or add to portfolio positions, he says, noting that domestic equity valuations began 2012 at modest levels.

In 2011, a strong finish lifted large cap value stocks into barely-positive territory for the full year, Helm observes. Large cap value names, as measured by the Russell 1000® Value Index, registered returns of 13.11% for the quarter ended December 31, 2011, and 0.39% for the full year. By comparison, the Harbor Large Cap Value Fund returned 10.84% for the quarter and 0.09% for the year.

In the fourth quarter, stock selection in the Information Technology and Financials sectors hurt Fund performance relative to the index. Stock selection in Consumer Staples was the biggest contributor to relative return, Helm reports.

Rick Helm's comments were made in a January 11, 2012, interview. Highlights adapted from the interview appear below. All comments relate to the quarter ended December 31, 2011, unless otherwise indicated. All references to year-to-date are for the period January 1 through December 31, 2011.

INTERVIEW HIGHLIGHTS

Rising cash flows
As we enter the year, U.S. equities appear modestly priced by historical standards. Cash flows and dividends are rising and high volatility could provide buying opportunities.

Volatile markets
We believe volatility will again continue to be extreme as most asset classes and markets face increasing pressure from a world hungry for attractive risk-adjusted returns. Our early view is that 2012 will be a volatile year but will end with the markets gaining modestly.

Slower earnings growth
Given sluggish economic growth in the U.S., weakness in Europe, and slowing growth in emerging markets, the rate of earnings growth also could slow in 2012. In that kind of environment, I think companies that are raising dividends will probably be more sought after than those that are not. In addition, you could see investors favoring companies that emphasize domestic sales versus revenues from overseas, and particularly from Europe.

Pent-up demand for growth
We think there is a lot of pent-up demand for “growth-ier” names; so if the market makes a big move investors may pay less attention to dividends. If it proves to be a difficult market, however, that could favor higher-yielding stocks.

Investing in Apple
We initiated a small position in Apple in the fourth quarter. We have been watching the company for some time and our biggest issue had always been whether under Steve Jobs it would ever pay a dividend. Under this management, I think Apple could begin paying a dividend. The company clearly has more capital to deploy than it can use right now and it typically has not made large acquisitions.

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Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Large Cap Value Fund - INST	10.84%	0.09%	8.45%	-2.03%	2.54%	0.68%	0.72%
Russell 1000® Value Index	13.11%	0.39%	11.55%	-2.64%	3.89%		

As of 12/31/2011, the Harbor Large Cap Value Fund had invested the following percentages of its assets in the sectors listed: Financials, 21.59%; Health Care, 13.54%; Energy, 12.98%; Consumer Discretionary, 10.23%; Information Technology, 9.27%; Industrials, 8.25%; Consumer Staples, 7.98%; Utilities, 5.48%; Telecommunication Services, 4.73%; Materials, 3.25%;

Performance data shown represents past performance, which is no guarantee of future results. Current performance may be higher or lower than the past performance data shown. Investment returns and the value of an investment will fluctuate, and an investor's shares, when sold, may be worth more or less than their original cost. You can obtain performance data current to the most recent month-end (available within seven business days after the most recent month-end) by calling 800-422-1050 or visiting www.harborfunds.com.

Investors should carefully consider the Fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus for this and other information about the Fund, visit harborfunds.com or call 800-422-1050. Read it carefully before investing.

The Harbor Funds performance shown assumes the reinvestment of dividend and capital gain distributions and is net of management fees and expenses. Returns for periods less than one year are not annualized. From time to time, certain fees and/or expenses have been voluntarily waived, which has resulted in higher returns. Without these waivers, the returns would have been lower. Voluntary waivers may be applied or discontinued at any time without notice. The Harbor Funds are no-load; other fees and expenses do apply to a continued investment in the Funds and are described in each Fund's current prospectus.

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.

Over time, a value oriented investing style may go in and out of favor, which may cause the Fund to sometimes underperform other equity funds that use different investing styles.

Equity securities, such as common stocks, are affected by company specific events and by movements in the overall stock markets in which those securities principally trade. An adverse company specific event, or downturn in those stock markets, can depress the value of a particular company's equity securities.

About Expense Ratios: All mutual funds have expense ratios which represent what shareholders pay for operating expenses and management fees. Expense ratios are expressed as an annualized percentage of a fund's average net assets paid out in expenses. Net expense ratios reflect adjustments due to voluntary or contractual fee waivers or expense reimbursements. Expense ratio information is as of the Fund's current prospectus, as revised and supplemented from time to time. The net expense ratio for this Fund reflects a voluntary fee waiver which may be discontinued at any time without notice, although the adviser has no present intention to do so.

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

This information should not be considered as a recommendation to purchase or sell a particular security and the holdings or sectors mentioned may change at any time and may not represent current or future investments. As of 12/31/2011, the Harbor Large Cap Value Fund held the following positions referenced as a percentage of the Fund's total net assets: Apple Inc. - 0.51%.

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 Russell Investments.

The views expressed herein are those of the portfolio managers at the time of the interview and may not be reflective of their current opinions or future actions. These views are not necessarily those of the fund company and should not be construed as such.

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111 South Wacker Drive, 34th Floor | Chicago, IL 60606-4302 | 800.422.1050 | www.harborfunds.com