Harbor Money Market Fund

Ken O'Donnell, CFA

4th Quarter, 2011 Commentary

"In terms of asset classes, we are continuing the conservative strategy of investing exclusively in government and agency securities." - Ken O'Donnell

Low-rate environment likely to continue in 2012

The fourth quarter of 2011 saw short-term interest rates hovering at near-zero levels, as the Federal Reserve maintained its strategy of monetary easing. The BofA Merrill Lynch US 3-Month Treasury Bill Index, a proxy for money market returns, registered a 0.00% return for the quarter and a 0.10% gain for the 12 months ended December 31, 2011. The Harbor Money Market Fund closely tracked the index, with returns of 0.01% for the quarter and 0.09% for the full year.

Any near-term relief for money market investors appears unlikely, in the view of Ken O'Donnell, Portfolio Manager of the Harbor Money Market Fund. He believes that monetary policy rates will remain anchored throughout 2012 against a backdrop of sluggish economic growth.

Ken O'Donnell's comments were made in a January 12, 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

Low yield levels
Short-term interest rates remained at low levels throughout the fourth quarter and we are unlikely to experience a significant change in this pattern at any point in the near future. Yield levels on money market instruments have traded within a very tight range, with short-term U.S. Treasury bill yields declining through zero into negative territory for a period during the fourth quarter.

Focus on Europe
If Europe were to become further distressed, posing risks to the U.S. economy, the Federal Reserve probably would respond with another stage of quantitative easing. Some have speculated that could involve the purchase of mortgage-backed securities. They see that as an opportunity to not only take duration out of the system and provide financial support in a further accommodation but also provide specific support to the housing market. I would argue that, at least in the near term, all eyes should be on Europe.

Managing the portfolio
We have been tactically managing portfolio duration and are currently maintaining a duration near the 40-day range. In terms of asset classes, we are continuing the conservative strategy of investing exclusively in government and agency securities. We see agency discount notes as continuing to provide the most value on a risk-adjusted basis.

Inflation outlook
We haven't seen any signs of inflationary pressures in the current economy. Given a large output gap in terms of excess capacity and with labor markets at elevated unemployment levels, it seems unlikely that we will experience price pressures at the consumer level at any time in the near future.

Caution on Europe
Given the instability in Europe, the money market industry's exposure to European banks has declined significantly from only about a year ago. In general, the exposure to commercial paper has also declined since the crisis peak of 2008. We're starting to see more holdings of government paper, smaller holdings in commercial paper, and a significant decline in European exposures.

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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 Money Market Fund - INST	0.01%	0.09%	0.16%	1.59%	1.90%	0.28%	0.32%
BofA Merrill Lynch US 3-Month Treasury Bill Index	0.00%	0.10%	0.15%	1.48%	1.95%		

Current Yield for Period Ending 12.31.2011: INST Class - 7 Days: 0.03%

Current yield is annualized and excludes gains and losses as defined by the Securities and Exchange Commission. The current yield more closely reflects the current earnings of the Harbor Money Market Fund than the total return.

As of 12/31/2011, the Harbor Money Market Fund had invested the following percentages of its assets in the sectors listed: Government Agency Debt, 51.06%; Repurchase Agreements, 48.67%;

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.

An investment in the Harbor Money Market Fund is not guaranteed by the FDIC or any other government agency. Although the Harbor Money Market Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Harbor Money Market Fund.

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 reflected is contractual until 02/29/2012.

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

This information should not be considered as a recommendation to purchase or sell a particular security and the holdings or sectors mentioned may change at any time and may not represent current or future investments.

The BofA Merrill Lynch US 3-Month Treasury Bill Index is comprised of a single U.S. Treasury Bill issue purchased at the beginning of each month and held for a full month, at which time that issue is sold and rolled into a newly selected issue. The issue selected each month is that having a maturity date closest to, but not beyond 90 days from the rebalance date.

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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