



Harbor Real Return Fund



Mihir Worah

4th Quarter, 2011 Commentary

"We have diversified away from the low real yields we're getting in the U.S. market." -PIMCO Investment Strategy Group

Inflation-indexed bonds registered positive returns to close out 2011

Inflation-linked bonds moved modestly higher in the fourth quarter amid continuing uncertainty over Europe's debt crisis and its potential impact on the global economy. Inflation-indexed securities, as measured by the Barclays Capital U.S. TIPS Index, returned 2.69% for the three months ended December 31, 2011.

The Harbor Real Return Fund slightly lagged the index with a return of 2.53% for the quarter. The Fund is managed by Mihir Worah, an executive vice president of Pacific Investment Management Company (PIMCO).

Treasury inflation-protected securities, or TIPS, outperformed their nominal Treasury counterparts in the quarter as inflation expectations increased, PIMCO reports. Bonds of financial institutions, emerging markets securities, and positions in Australian and Canadian inflation-linked bonds were among the portfolio positions adding value for the Fund, PIMCO says. Detractors included investments in non-agency mortgage-backed securities and a lower-than-index exposure to U.S. TIPS.

PIMCO's comments were made in a January 18, 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

Global exposure to real yields

We have more emphasis on real yields in places like Canada and Australia, in addition to the U.S. We have diversified away from the low real yields we're getting in the U.S. market. It gives us a higher starting yield as well as the potential for future price increases as real yields compress in these non-U.S. markets. That's why we like having the ability to buy global TIPS across many markets.

Diversification benefit

The attractiveness of TIPS comes from the diversification they offer and also the ability for real yields to compress even more. The expectation of declining inflation is typically bad for inflation-linked bonds. But if we have a disorderly outcome in Europe, which we think is likely, TIPS and nominal bonds could both do very well relative to riskier assets.

Anemic U.S. growth

As we move forward, we think economic growth in the U.S. will be positive but anemic. We think the U.S. will grow between 0% and 1%, despite some recent positive data. That is probably all we can expect because most of the positive data have come from seasonal factors, not organic demand. We see the ability to increase fiscal spending as very limited given already high government deficits and the fact that it's an election year in the U.S.

Stronger balance sheets

We think U.S. corporations have better balance sheets in general than their European counterparts. The deleveraging that has happened in the corporate sector in the U.S. is just beginning in euro land, so we think U.S. companies have lower default risk and certainly would be less impacted by a disorderly outcome in Europe.



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Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Since Inception (12/01/2005)	Expense Ratios Net	Expense Ratios Gross
Harbor Real Return Fund - INST	2.53%	11.35%	11.20%	7.99%	6.63%	0.60%	0.64%
Barclays Capital U.S. TIPS Index	2.69%	13.56%	10.38%	7.95%	6.78%		

As of 12/31/2011, the Harbor Real Return Fund had invested the following percentages of its assets in the sectors listed: U.S. Government Obligations, 84.85%; Corporate Bonds & Notes, 18.99%; Foreign Government Obligations, 7.79%; Collateralized Mortgage Obligations, 2.80%; Asset-backed Securities, 2.61%; Mortgage Pass-through, 1.67%; Bank Loan Obligations, 0.75%; Options, 0.01%;

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.

Fixed income investments are affected by interest rate changes and the creditworthiness of the issues held by the Fund. As interest rates rise, the values of fixed income securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio. The use of derivative instruments may add additional risk. The Fund is non-diversified, which means that it may concentrate its assets in a smaller number of issuers, making it more susceptible to risks associated with a single economic, political or regulatory occurrence than a more diversified portfolio.

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 Barclays Capital U.S. TIPS Index is an unmanaged market index comprised of all U.S. Treasury Inflation Protected Securities rated investment grade (Baa3 or better), have at least one year to final maturity, and at least \$250 million par amount outstanding. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

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

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