



Harbor Small Cap Growth Fund



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4th Quarter, 2011 Commentary

"We're not saying housing is great but there are a lot of signs that it has bottomed." -Will Muggia

Q4 rebound trims small cap losses for 2011

Small cap stocks rebounded in the fourth quarter of 2011, with the Russell 2000® Growth Index posting a return of 14.99%. The Harbor Small Cap Growth Fund outperformed the index with a return of 15.72%. Investments in the Information Technology and Materials sectors were among the leading contributors to Fund returns relative to the index, while Energy names were the biggest detractors from relative performance, reports Portfolio Manager Will Muggia.

Despite the surge in the final quarter, small cap growth stocks finished 2011 in negative territory. The Russell 2000® Growth Index registered a negative return of -2.91% for the year, while the Fund was off -7.66%. The Fund nonetheless continued its long-term outperformance of the index for the 5-year and 10-year periods ended December 31, 2011.

Looking ahead, Muggia and his team see continuing progress in the U.S. economic recovery, including a bottoming-out of the downturn in housing. These expectations are reflected in portfolio positions in a number of areas, including the Industrials, Financials, and Consumer Discretionary sectors.

The Fund has trimmed its exposure to companies linked to European markets, Muggia reports. He believes the sovereign debt crisis will eventually be resolved but he is not optimistic on the region's macroeconomic outlook for 2012.

Will Muggia'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

U.S. housing market

One of the themes we have going into 2012 is that the U.S. housing market has bottomed. We're not saying housing is great but there are a lot of signs that it has bottomed. If so, that could be very good for banks, particularly regional banks. We added several regional banks that have been very good performers and we think that could be an area of solid contribution in 2012.

Positive view on manufacturing

The area I'm probably most excited about is the Industrials. It's the largest sector weight in the portfolio and by far the largest overweight relative to the benchmark. Part of that is our expectation of a resurgence in U.S. manufacturing. And if the housing and auto industries have both bottomed that would be really good for the Industrials.

Dividend growth

There was a lot of talk last year about dividend yield, and sectors such as Consumer Staples, Utilities, and REITS did very well. But I feel that the pure-yield plays have become too expensive. On the other hand there are dividend-paying stocks with 1% to 2% yields, where they're growing



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the dividend, buying back stock, and returning capital. These are all things that we're looking at in 2012.

Energy outlook

One of the themes we have in the Energy space is that we expect to see very low natural gas prices for the next 10 to 20 years. That could be a major U.S. competitive advantage. We think it would be hugely positive for U.S. manufacturing.

Economic recovery

I think the U.S. right now is the best-positioned economy in the world. We are still in a de-leveraging, slow-growth environment, grinding it out. But I think U.S. employment is going to start getting better, and with an improvement in autos and housing we could see a kind of renaissance in manufacturing.

Total Returns

As of 12/31/2011

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Small Cap Growth Fund - INST	15.72%	-7.66%	19.43%	2.89%	5.65%	0.85%	0.85%
Russell 2000® Growth Index	14.99%	-2.91%	19.00%	2.09%	4.48%		

As of 12/31/2011, the Harbor Small Cap Growth Fund had invested the following percentages of its assets in the sectors listed: Industrials, 23.86%; Health Care, 23.13%; Information Technology, 19.16%; Consumer Discretionary, 8.61%; Financials, 8.24%; Energy, 7.70%; Materials, 5.97%;

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.

Stocks of small cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

Over time, a growth 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.

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 Russell 2000® Growth Index is an unmanaged index representing the smallest 2000 stocks with the highest price-to-book ratio and future earnings. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 2000® Growth 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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