



## Harbor's Proxy Voting Summary

June 30, 2011

During the 12 months ended June 30, 2011, the Harbor Funds voted on proposals from approximately 533 U.S. companies. This report provides a brief overview of how the Funds voted.

The objective of the [Proxy Voting Guidelines](#) established by the Board of Trustees of the Harbor Funds is to support proxy proposals and director nominees that we believe will maximize the value of the Funds' investments in portfolio securities over the long term. While the objective is straight forward, the Funds receive a broad range of proposals that are frequently complex. As a result, the Funds' Board of Trustees has delegated responsibility for voting proxies to the Proxy Voting Committee as set forth in the Funds' Proxy Voting Policies and Procedures. The Proxy Voting Guidelines are designed to provide the Proxy Voting Committee with a framework for assessing each proposal and delineate factors that the Committee should consider as part of its voting decision. The Committee evaluates each proposal on its own merits taking into account the particular facts and circumstances presented.

The Funds' Proxy Voting Guidelines were developed with the recognition that company management<sup>1</sup> is entrusted with the day-to-day operations of the company, as well as its long-term direction and strategic planning, subject to the oversight of the company's board of directors, while staying focused on maximizing shareholder value. Accordingly, the Funds' Board of Trustees believes that the recommendation of the company's board of directors on most issues should be given weight in determining how proxy issues should be voted. This reflects the basic investment philosophy that good management is shareholder focused. However, the position of the company's board of directors will not be supported in any situation where that position is found not to be in the best interests of the Funds. As a result, the Funds' Board of Trustees expects that the Funds would vote against a proposal recommended by the company's board of directors when they conclude that a particular proposal may adversely affect the long-term investment merits of owning stock in that portfolio company.

Detailed records showing how each of the Funds voted during the 12 months ended June 30 have been posted on the Funds' web site and filed with the Securities and Exchange Commission. The following summary report is designed to more fully explain to fund shareholders and company directors and executives the Funds' perspectives on the issues that arise most frequently for U.S. companies. The accompanying table shows the Funds' overall voting results for U.S. companies in several significant categories.

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### **A Note on Foreign Companies**

This report focuses only on proxy votes involving U.S. companies. The voting records posted on the Funds' web site and filed with the SEC include the Funds' votes on proxy proposals from all the countries represented in the Funds' portfolios. However, the variation in proposal types and market conventions across the globe make summaries of international votes less informative.

The Funds generally vote proxies for foreign companies in a manner that the Committee believes is consistent with the objective of the Funds' Proxy Voting Guidelines, while taking into account differing practices by market. In addition, there may be many instances where the Funds elect not to vote proxies relating to foreign securities held by its clients. For example, the Funds normally do not vote proxies in foreign markets where such a vote would cause the Funds to be blocked by local laws or rules from selling the foreign securities during the voting period (a concept called "share blocking") or where the costs to the Funds of voting in the foreign markets would be significant relative to the limited impact the proposals may have on the value of the Funds' investment. Further information may be found in the Funds' Proxy Voting Guidelines.

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<sup>1</sup> We use the term "management" in this document to refer to the company's internal management. For purposes of this summary, the board of directors is separate from the company's management.

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**Election of Directors**

During the 12 months ended June 30, the Funds voted on more than 3,200 director nominees. The Funds supported more than 99% of these director nominees.

When the Funds did not support nominees, the reasons varied but were directly related to the goal of maximizing shareholder value. In general, the Funds withheld votes for one of four reasons:

- The nominee served on a committee whose actions were inconsistent with the Funds' Proxy Voting Guidelines. Examples include nominees who serve on compensation committees that propose or approve equity-based compensation plans that unduly dilute the ownership interests of shareholders or propose or approve compensation plans that appear to be excessive or inappropriate given competitive compensation levels, company performance or other appropriate factors that, in the opinion of the Proxy Voting Committee, warrant consideration in evaluating the compensation plan.
- The nominee served on the compensation or audit committee and was deemed non-independent under the Funds' guidelines, unless the company is majority controlled by such inside director or affiliated beneficial owners. The Funds generally support directors on the nominating committee when the committee is made up of a majority of independent directors and when the nominating committee is chaired by an independent board member. The Funds also support inside directors who serve on the nominating committee of a company that is majority controlled by such inside director or affiliated beneficial owners.
- The nominee attended fewer than 75% of board meetings without valid reasons for absences.
- The nominee sat on an excessive number of public company boards.

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**Compensation Issues**

Companies often offer proposals concerning compensation plans for employees or directors. Many such plans include equity-based compensation (e.g., stock options or restricted stock) or various types of bonuses. The Funds support appropriately designed stock-based compensation plans, administered by an independent committee of the board and approved by shareholders, to align the interests of long-term shareholders and the interests of management, employees, and directors. The Funds oppose stock-based compensation plans that substantially dilute the Funds' ownership interest in the company, provide participants with excessive awards, or have structural features that are not in the best interests of the Funds' shareholders.

The Funds voted in favor of approximately 98% of all compensation proposals (excluding so-called "say when on pay" proposals) presented during the 12-month period ended June 30. While a few compensation plan proposals contained objectionable structural features such as the ability to re-price underwater options, the ability to issue options with an exercise price below the stock's current market price, the ability to issue reload options or automatic share replenishment ("evergreen") features, the Funds' votes against compensation plans occurred primarily in situations where the total potential dilution or the annual option grants exceeded pre-established guidelines. In general, companies have largely eliminated such objectionable plan design features.

Beginning in January 2011, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") required most public companies to submit a proposal to shareholders for a non-binding advisory vote on executive compensation. Through June 30, these so-called "say on pay" proposals appeared on the ballots of just over 400 companies held by the Funds. The Funds reviewed these proposals on a case-by-case basis and supported over 99% of them. This level of support is consistent with the market overall, with only 1.5% of U.S. public

companies failing to garner majority support for their say on pay proposals through June 30<sup>2</sup>.

In addition to say on pay proposals, the Dodd-Frank Act also required companies to ask shareholders how frequently say on pay proposals should appear on ballots in future years. At issue in these so-called "say when on pay" votes was whether future say on pay votes should occur every one, two or three years. The Funds generally support a three-year frequency for say when on pay proposals, but generally support the company's board if it recommends a frequency other than every three years.

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**Ratification of Auditors**

In evaluating ratification of auditor proposals, the Funds generally support the board's recommendation for the ratification of the auditor except in instances where audit and audit-related fees make up less than 50% of the total fees paid by the company to the audit firm. The Funds evaluate those situations on a case-by-case basis to determine whether independence may have been compromised. In all, the Funds voted against ratification of the auditor at just two companies.

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**Other Corporate Proposals**

The Funds considered various proposals related to changes in a company's capital structure, including the authorization of shares (common and preferred) or share repurchase programs. The Funds voted in favor of 100% of the proposals involving a company's capital structure.

The Funds also considered various proposals related to changes in a company's governance structure, including adoption of poison pills, shareholder rights plans and the elimination of cumulative voting, supermajority voting and classified boards. The Funds voted in favor of 100% of the proposals involving a company's governance structure. The Funds voted in favor of 100% of the proposals eliminating cumulative voting, supermajority voting and classified boards.

The Funds reviewed 13 reorganization, acquisition and/or merger proposals during the 12-month period ended June 30. The Funds voted in favor of all of the proposals. The Funds consider a number of factors when analyzing these proposals, but focus primarily on whether the Proxy Voting Committee believes the proposal will maximize shareholder value over the long-term.

The Funds annually review various proposed amendments to a company's charter and bylaws. In reviewing charter and bylaw proposals, the Proxy Voting Committee considered how the changes would affect the rights of shareholders. If these proposals were viewed as beneficial, the Funds voted for them. During the 12-month period ended June 30, the Funds voted in favor of five of the seven such proposals.

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**Shareholder Proposals**

The last major group of proposals that the Funds evaluated were those from shareholders on issues ranging from governance changes to calls for various social responsibility reforms.

The range of subjects covered in shareholder proposals is broad, and the Funds' votes on them have followed consistent patterns. The Funds generally support proposals that seek to enhance director accountability and reduce barriers to shareholder action. For example:

- The Funds generally support efforts to declassify existing boards, and vote against efforts by companies to adopt classified board structures.
- The Funds generally support efforts to implement a majority vote standard for the election of directors, but also take into account the extent to which a

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<sup>2</sup> Source: ISS and Glass Lewis.

company has taken other reasonable steps to achieve the same objective and may vote against a majority vote proposal when the Funds believe such other steps are, in fact, reasonable.

- The Funds generally vote against cumulative voting proposals on the premise that they allow shareholders a voice in director elections that is disproportionate to their economic investment in the company.
- The Funds support proposals to remove supermajority voting requirements for certain types of proposals, and the Funds vote against proposals to impose supermajority requirements.
- The Funds generally vote for proposals to subject poison pills to a shareholder vote.

On the other hand, the Funds generally do not support proposals that would mandate specific actions regarding particular corporate or social policies. In general, it is the Funds' position that these matters are primarily the responsibility of management. Such matters should be evaluated and approved solely by the corporation's board of directors. Generally, the Funds vote with a company's board on such issues although an exception may be made when the Proxy Voting Committee believes a proposal has significant economic merit that has not been adequately addressed by management and is in the best interests of the Funds and their shareholders.

The Funds reviewed 221 shareholder proposals during the 12-month period ended June 30 and voted in favor of the board 89% of the time.

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**Summary of Proxy Votes Cast by Harbor Funds for U.S. Companies between July 1, 2010 and June 30, 2011**

<b>Proposal Type</b>	<b>Approx. Number of Proposals</b>	<b>Voted For</b>	<b>Voted Against*</b>	<b>Abstain</b>
<b>Board of Directors</b>				
Elect director	3223	99%	1%	0%
Declassify board	29	100%	0%	0%
<b>Auditors</b>				
Ratify auditors	449	99%	<1%	0%
<b>Compensation-Related</b>				
Adopt/amend equity compensation plan	148	90%	10%	0%
Adopt/amend employee stock purchase plan	30	100%	0%	0%
Adopt/amend bonus/162(m) plan	42	100%	0%	0%
Advisory vote on executive compensation (board proposal)	402	99%	<1%	0%
Advisory vote on say on pay frequency†	397	99%	1%	0%
<b>Other Corporate Proposals</b>				
Approve capital structure change (e.g., authorize share issuance or repurchase, etc.)	22	100%	0%	0%
Approve governance structure change (e.g., adoption of majority vote, repeal of classified board, elimination of supermajority requirement, etc.)	61	100%	0%	0%
Approve merger/acquisition/reorganization	13	100%	0%	0%
Amend charter/bylaws/articles of incorporation	7	71%	29%	0%
<b>Shareholder Proposals‡</b>				
Governance/compensation-related	106	23%	77%	0%
Adopt/amend corporate or social policy	115	0%	100%	0%

\* For election of directors, this category also includes WITHHOLD votes.

† For purposes of these proposals, FOR votes are votes that were cast in accordance with management's recommendation regarding the frequency of say when on pay

‡ The board typically recommends votes AGAINST shareholder proposals. As such, votes FOR shareholder proposals are generally against the board's recommendation. Likewise, votes AGAINST shareholder proposals are generally with the board's recommendation.