



Subadviser: Income Research + Management (Since 06/01/2018)

Portfolio Managers: William A. O'Malley, CFA, James E. Gubitosi, CFA, Sarah M. Kilpatrick

2nd Quarter, 2020

"At Income Research + Management, we continue to monitor credit fundamentals and remain surgical in our bottom-up approach, favoring industries and companies that show resilience in these tough economic conditions and represent attractive relative value."

Income Research + Management

Market in Review

The novel coronavirus continued its grip on the U.S. economy, as first-quarter gross domestic product (GDP) fell by 5.0%. U.S. jobless claims surpassed 30 million, and the April unemployment rate hit 14.7%, erasing 11 years of job gains. Economic shocks rippled through the oil market, with May contracts dipping below \$0 for the first time. In its pledge to do whatever it takes, the Federal Reserve (the Fed) broadened its lending programs beyond agency-backed mortgages and expressed expectations of keeping rates near zero through 2022. Additional facilities included purchases of fallen angels (investment grade bonds that have been downgraded to below investment grade status), exchange-traded funds (ETFs), investment grade corporate bonds, and municipal bonds.

A continued push to reopen the U.S. economy, along with positive vaccine and treatment data, drove a rally in risk assets in May and June. There was a surprise gain of over 7 million jobs, better-than-expected retail sales, and a rebound in consumer spending. The positive tone pushed the Treasury yield curve steeper, with the 10-year and 30-year rate 7 basis points (bps) and 17 bps higher, respectively, to close the quarter at 0.66% and 1.41%. The U.S. Treasury also issued 20-year bonds at a yield of 1.22%.

Portfolio Performance

In the second quarter of 2020, the Harbor Core Bond Fund (Institutional Class) returned 4.20%, outperforming its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, which returned 2.90%.

Relative outperformance was driven by our underweight to Treasuries and overweight to Industrials and Financials. Security selection within Agency residential mortgage-backed securities (RMBS) and SBAs (bonds backed by Small Business Administration loans) also contributed to our positive performance. Relative underperformance was driven by security selection within Industrials.

Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at harborfunds.com or by calling 800-422-1050.

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Portfolio Positioning

During the quarter we strove to remain duration- and curve-neutral to the benchmark. An overweight to BBB and A securities, and an underweight to AAA securities, aided relative performance. Security selection in AAA securities also contributed to positive relative performance. This was offset by security selection within BBB and A securities.

The Fund's out-of-benchmark allocation to SBAs detracted from relative performance. Regarding the Fund's currency and country positioning, we invest exclusively in U.S. dollar-denominated, fixed income securities.

Contributors and Detractors

Among the largest contributors to the Fund's performance were Energy Transfer LP, New York State Urban Development Corp., and Air Lease Corp.

The largest detractors from the Fund's performance included United Airlines Holdings Inc., CVS Pass- Through Trust, and American Airlines Group Inc.

Buys and Sells

GSMBS 2020-INV1A14 was purchased during the second quarter. This is a non-agency RMBS security backed by agency investor loans. All of the loans are agency conforming except for approximately 1.5% of the pool, and these loans were underwritten as full documentation loans. The conforming loans were underwritten to Fannie Mae's and Freddie Mac's guidelines. This deal was attractively priced with 50 bps of spread pickup from a comparable deal priced before the current crisis.

COST 1.6 30 (Costco's 1.6% notes due in 2030) was sold during the period. We reduced credit targets and increased the Fund's allocation to agency-backed RMBS in June, given how much corporate spreads had tightened amid the strong risk-on tone. We originally bought this Costco holding as a new issue in April, and this credit was identified as a sale candidate given attractive relative valuation. We sold out of the position in June.

Outlook

Entering the third quarter, questions remain as to the trajectory of coronavirus infections and the virus' effects on the economy. Recovery in the U.S. will be uneven, as some states pull back their reopening plans, amid a surge in cases, while others move forward cautiously. With some of the stimulus measures expiring in the summer, Congress may be forced to pass another trillion-dollar package, in our view.

With these uncertainties and a looming election, risk assets may continue to experience some headwinds. Given how quickly spreads have tightened in April, and vice versa in March, security selection is paramount. At Income Research + Management, we continue to monitor credit

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Harbor Core Bond Fund

Manager Commentary

As of 06/30/2020

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ECONOMIC SECTORS

	% of Net Assets
Corporate Bonds & Notes	39.90
Mortgage Pass-Through	19.94
U.S. Government Obligations	16.81
Asset-Backed Securities	11.67
Collateralized Mortgage Obligations	9.34
Municipal Bonds	1.54

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. U.S. Treasury Bonds	2.90
2. U.S. Treasury Inflation Index Notes	1.77
3. U.S. Treasury Bonds	1.58
4. Federal Home Loan Mortgage Corp.	1.30
5. U.S. Treasury Notes	1.29
6. U.S. Treasury Notes	1.27
7. Federal Home Loan Mortgage Corp.	1.19
8. U.S. Treasury Notes	1.19
9. Government National Mortgage Associat	1.14
10. U.S. Small Business Administration	1.08

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (06/01/2018)	Expense Ratios	
						Net	Gross
Harbor Core Bond Fund - INST	4.20%	9.41%	N/A	N/A	8.17%	0.45%	0.54%
Bloomberg Barclays U.S. Aggregate Bond Index	2.90%	8.74%	N/A	N/A	7.90%		

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

The net expense ratios for this fund are subject to a contractual management fee waiver and/or expense limitation agreement, excluding interest expense and acquired fund fees and expenses (if any), through 02/28/2021.

The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of investment-grade fixed-rate debt issues with maturities of at least one year. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

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.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Income Research + Management, and may not be reflective of their current opinions or future actions, are subject to change without prior notice, and should not be considered investment advice.

Credit quality breakdown is based on ratings from Moody's, Standard and Poor's and Fitch. In the event a security is "split rated" (has received two or more different ratings from different rating agencies), the highest rating is used to determine the security's credit quality. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). Securities that receive no rating from an independent agency have been categorized as 'not rated.' The credit quality of securities in the Fund's portfolio does not apply to the stability or safety of the Fund. The Fund itself has not been rated by an independent rating agency.

The ratings breakdown noted are as of 06/30/2020 and may not represent current or future holdings.

Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. A summary prospectus or prospectus for this and other information is available at harborfunds.com or by calling 800-422-1050. Read it carefully before investing.

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