Harbor Diversified International All Cap Fund

Manager Commentary
As of 06/30/2020

Subadviser: Marathon Asset Management LLP *(Since 11/02/2015)*
Portfolio Managers: Neil M. Ostrer, Charles Carter, Nick Longhurst, William J. Arah, Simon Somerville, Michael Nickson, CFA, Michael Godfrey, CFA, David Cull, CFA, Robert Anstey, CFA

2nd Quarter, 2020

"We remain committed to our long term investment philosophy and the search for good stewards of our clients' capital."

Marathon Asset Management LLP (Marathon-London)

Market in Review

Following the dramatic equity market sell-off during the first quarter of 2020, as the novel coronavirus shook the foundations of economies and societies globally, markets reversed course sharply in the second quarter of the year. Many indexes rebounded to where they had started at the beginning of the year, specifically in North America, and interestingly in China as well, almost as if a global pandemic and economic lockdown had never occurred.

Markets have been fueled by record amounts of liquidity provided by central banks and fiscal stimulus from governments that have powered money supply relative to economic growth and, in turn, have aided financial assets. But the debt that has been created will not disappear any time soon, and it was layered upon a financial system that was already heavily indebted. Equity multiples have expanded in this environment, and there has also been evidence of speculative investment activity on the part of retail investors, among others. Many growth stocks, particularly in the most popular sector, Technology, are showing signs of valuation excess, and the historic performance gap between growth stocks and value stocks has widened even further. The level of success achieved by central banks and governments regarding reflation efforts will determine which sectors do better down the road. Most major markets are positioned for low growth and deflation, certainly not for the inflation which the powers that be are trying to create.

Following the market drawdown and partial recovery in the first half of the year, little remains in the way of rotation in market leadership, with growth-oriented businesses outperforming their value peers, and larger capitalization stocks outperforming the smaller capitalization universe. In this environment, it is a challenge for fundamental investors to keep up with indexes that have essentially become both narrative- and momentum-led. Marathon maintains its belief that a focus on the supply side, long term fundamentals, and a valuation discipline remains important to preserve capital.

Portfolio Performance

In the second quarter of 2020, the Harbor Diversified International All Cap Fund (Institutional Class, "the Fund") returned 16.71%, outperforming its benchmark, the MSCI All Country World Ex. US (ND) Index, which returned 16.12%.

During the quarter, a tidal wave of economic stimulus swept equity markets off of the COVID-19-induced lows experienced near the tail end of March. Stock selection within Europe, particularly in the U.K., and emerging markets contributed positively to performance. Stock-specific exposure within Japan, which is more domestically orientated, along with stock-level exposure in Hong Kong weighed slightly on relative returns.

From a sector standpoint, stock selection within Consumer Discretionary and Materials contributed positively to overall performance. Conversely, stock-level exposure within the Information Technology and Health Care sectors weighed on performance. Additionally, relative gains delivered from the Fund's overweight exposure to Industrials were more than offset by stock-specific exposure in that sector.

Contributors and Detractors

Contributing to performance was mining giant Anglo American Platinum. Severe volatility in company shares continued into the second quarter; however, this time in the Fund's favor. The reopening of automotive manufacturing plants and early signs of improving economic activity helped reduce levels of uncertainty in the demand outlook for input materials. This, in turn, drove shares in Anglo American Platinum up over 70.0% (in USD terms).

HelloFresh also contributed during the quarter. The group raised its guidance, as COVID-19 restrictions led to increased demand for its product and based on the continued strong performance of company shares.

Taiwan-based, high-end, bicycle frame maker Giant Manufacturing delivered positive performance, as investors speculated that the COVID-19-induced surge in demand for bicycles could be sustained for some time as, for example, commuters look for ways to avoid mass transportation. The company's shares soared over 100.0% (in USD terms) during the quarter.

In contrast, U.K. foodservice company Compass Group was the largest detractor from performance during the period, and the group launched its largest-ever equity raise to help survive the COVID-19- imposed lockdown. During May, the company announced that revenues had fallen significantly in March and April, as nearly its entire customer base, which includes offices, airports, sporting venues, and schools, had closed, and in the process, destroyed demand for its wholesale food services.

Not owning Canada-based e-commerce company Shopify weighed on relative returns. The company is an obvious beneficiary of COVID-19-induced restrictions resulting in shoppers choosing online e-commerce rather than brick and mortar retailers.

South African packaged goods company Tiger Brands also detracted from performance during the quarter. The group warned of hefty write-downs related to its export business in light of the deteriorating global outlook.

Buys and Sells

A position was initiated in Bank Mandiri, the largest bank in Indonesia, as market concerns surrounding COVID-19 provided an opportunity for investment at an attractive valuation. The top four banks in Indonesia control around 55.0% of the market and a majority of industry profitability. Bank Mandiri has the lowest cost of funds in the sector, thanks to a wide deposit-taking network, and its lending is mostly corporate and retail, where net interest margins tend to be high. This allows the company to maintain high operational returns on assets and equity while keeping leverage low. Although it is a government-linked bank, overt interference from the government has been minimal, allowing the outfit to be professionally managed.

Chilean copper producer Antofagasta operates in a consolidated market structure. However, valuation had reached its desired peak, and therefore the position was sold to deploy capital elsewhere.

Outlook

The team at Marathon-London continues to focus on, look for, and invest in companies that exhibit favorable supply-side dynamics and have management teams with a track record of allocating capital efficiently. We are not looking to become epidemiologists, macro prognosticators, or react to market volatility. Instead, we remain committed to our long term investment philosophy and the search for good stewards of our clients' capital.

For Marathon-London's MSCI All Country World Ex. US Strategy and our emerging markets model, in particular, the Fund's relative performance over the year-to-date period, and specifically over the last three years, has been largely influenced by the Fund's relative weighting to China versus the MSCI All Country World Ex. US Index weighting, which has grown significantly over that period. That material underweight exposure is a residual of Marathon-London's bottom-up stock selection process, which is anchored around the capital cycle investment philosophy employed by the team and not reflective of top-down or 'macro' factors. However, it is worth continuing to highlight to our investors that Marathon views the continuation of debt-funded growth, in conjunction with direct government-backed injections of capital, in that market as perpetuating overcapacity across several key industries and fostering poor capital allocation decisions by management teams of companies domiciled in that market. These dynamics are not a recipe for success over the long term, in our view. This opinion is also supported by empirical data and longer term rates of return within that market. Marathon-London, therefore, continues to find better opportunities to deploy our clients' capital elsewhere within the emerging markets opportunity set.

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Trusted Partnerships › Trusted Solutions

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ECONOMIC SECTORS

	% of Net Assets
Industrials	19.47
Financials	14.09
Consumer Discretionary	13.96
Consumer Staples	12.40
Information Technology	10.04
Health Care	9.19
Communication Services	8.29
Materials	7.94
Energy	2.48
Utilities	0.55
Real Estate	0.52

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Taiwan Semiconductor Manufacturing Co	1.58
2. Samsung Electronics Co. Ltd.	1.51
3. Roche Holding AG	1.49
4. Coloplast AS	1.14
5. Vestas Wind Systems AS	0.98
6. Novo Nordisk AS	0.97
7. Intertek Group plc	0.91
8. Barrick Gold Corp.	0.89
9. Baidu Inc. ADR	0.88
10. HelloFresh SE	0.88

TOP TEN COUNTRIES

Country	% of Net Assets
Japan	17.20
United Kingdom	15.31
Canada	7.41
Denmark	4.81
France	4.56
Taiwan	4.43
Australia	4.37
Germany	4.35
South Korea	3.85
Switzerland	3.59

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (11/02/2015)	Expense Ratios Net	Expense Ratios Gross
Harbor Diversified International All Cap Fund - *INST*	16.71%	-8.26%	N/A	N/A	2.07%	0.80%	0.95%
MSCI All Country World Ex. US (ND) Index	16.12%	-4.80%	N/A	N/A	3.71%		

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.

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 MSCI All Country World Ex. US (ND) Index is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

The subadviser's assessment of the capital cycle for a particular industry or company may be incorrect. Investing in companies at inopportune phases of the capital cycle can result in the Fund purchasing company stock at pricing levels that are higher than the market dynamics would support and therefore subject the Fund to greater risk that the stock price would decline rather than increase over time.

Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

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

At times, a value investing style may be out of favor with investors which could cause value securities to underperform growth or other equity securities.

Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Marathon Asset Management LLP (Marathon-London), 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.

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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