Harbor Global Leaders Fund

Manager Commentary
As of 12/31/2019

Subadviser: Sands Capital Management, LLC *(Since 03/02/2017)*
Portfolio Managers: Sunil H. Thakor, CFA, Michael F. Raab, CFA

4th Quarter, 2019

"We believe all the Fund's businesses are benefiting from very durable, long-term structural changes happening around the world."

Sands Capital Management, LLC

Market in Review

In 2019 global equities [as measured by the MSCI All Country World Index (ACWI)] posted their best year since 2009, with continued momentum in the fourth quarter. The quarter's gains were led by the U.S., where equity markets hit all-time highs. The strong U.S. equity returns reflected easing recession fears and underscored the strength of the U.S. economy, which has been supported by very low unemployment, rising wages, and healthy consumer spending and business investments. As of last year, the U.S. economic expansion is the longest on record in U.S. history, and many market participants anticipate another year of solid fundamentals.

Internationally, gains were broad based, with all regions positively contributing to the MSCI ACWI's return, and 14 constituent countries posting double-digit returns. During the quarter, we saw progress around U.S. trade policy and Brexit, as well as dovish central bank positioning. From a sector perspective, the fast-growing Information Technology and Health Care sectors led the way, with Utilities the only detractor.

While the global macro backdrop provided a constructive environment, we believe the Harbor Global Leaders Fund (the Fund)'s positive absolute investment result was largely driven by the fundamental strength of the businesses in its portfolio. We believe many of the Fund's businesses are capable of growing earnings regardless of the economic environment, as they benefit from growth opportunities tied to secular trends and provide products or services that their customers view as necessities.

Portfolio Performance

In the fourth quarter of 2019, the Harbor Global Leaders Fund (Institutional Class) returned 8.30%, underperforming its benchmark, the MSCI All Country World (ND) Index, which returned 8.95%.

While the majority of businesses within the Fund saw their share price appreciate during the quarter, the Global Leaders Fund (the Fund)'s relative investment result was negatively impacted from not owning some companies with significant weights in the benchmark index that performed well.

From a regional perspective, developed and emerging Asia were the top contributors to relative investment results, while investments in the U.S. and Canada, collectively, and western Europe detracted the most. From a sector perspective, Consumer Staples and Communication Services contributed the most, while Information Technology and Consumer Discretionary were the largest detractors.

Contributors and Detractors

Adobe was one of the largest contributors to relative investment results during the quarter. In December, Adobe reported strong third-quarter revenue growth. The company's revenues grew 21% year-over-year and its digital media annual recurring revenue (ARR) reached $1.7 billion. Both revenue and ARR beat consensus expectations, and ARR outpaced management's initial guidance by 20%. The most recent reported quarter saw a strong rebound in the digital experience segment, driven by quarter-over-quarter improvement in the Marketo business and increased adoption of the Adobe Experience platform. In addition, the company's margin is back on track from the lows seen in early 2019, following the Marketo and Magento acquisitions, and have stabilized again in the 40% to 43% range, with continued improvement expected in fiscal 2020.

The largest detractors from relative investment results during the quarter were Temenos, Verisk Analytics, Safran, Dollar General, and Intuit.

The share price of Safran, a French manufacturer of aircraft engines, has faced pressure due to the production halt of the 737 MAX. The financial impact to Safran is difficult to analyze without knowing what Boeing's plans are for supplier compensation or how Safran will respond on production. We anticipate that Safran will likely halt engine production for 737s, that Boeing will not provide further compensation to Safran starting in 2020, and that Safran will retain the same expense structure rather than attempting to reduce its labor force or overhead. With low visibility on the plans for the 737 MAX, we believe Safran's cash levels could decline, but that delivery payments could get pushed further out and may then be recoverable once 737 MAX deliveries resume. In our view, the incremental impact to Safran's income statement should be small, as Safran does not recognize revenue on undelivered engines dedicated to new aircraft.

Buys and Sells

During the quarter we purchased MonotaRO, Rentokil Initial, and Sea. We sold Inditex.

Rentokil Initial is the world's leading provider of pest control and other route-based services focused on enhancing public health, hygiene, and safety. The company is the global leader in that space based on revenues and operates in over 70 countries. We believe the global pest control industry is a highly attractive business space that has multiple secular drivers. The industry benefits from highly inelastic demand, substantial pricing power, and recurring revenues. The industry is also fragmented and is likely to consolidate, in our view. Rentokil leads the industry in terms of scale and geographic reach, and we believe the company is gradually extending its lead via accretive mergers and acquisitions (M&A), a strong and growing emphasis on technology and innovation, and a key first-mover advantage across several emerging markets and industry adjacencies. Driven by a combination of organic share gains and M&A, we believe the business has the potential to grow its pest control revenues at two to three times the rate of the underlying industry (approximately five% annually), with margin expansion driven by higher service density across its pest control and hygiene franchises.

We sold Inditex (Industria de Diseno Textil SA), the world's largest apparel company by market cap and sales, which is best known for its flagship Zara brand. Our primary concerns were the company's competitive advantage and industry leadership, which we believe are both weakening on the margin. As a result, we view other businesses as stronger fits with the Fund. Inditex created the fast-fashion business model, and for decades differentiated itself by taking just a handful of weeks to design, manufacture, and ship on-trend clothes to its stores. However, other companies have become adept at replicating this model in a "good enough" manner, narrowing the gap between Inditex and the rest of the industry. Looking forward, we are also watching the emerging threat from the rise of rental and resale services that give customers a sense of "newness" once provided primarily by fast fashion. Additionally, we believe fast fashion is disadvantaged in a world where consumers are increasingly focused on sustainability, as is the case with Inditex's core Gen Z and Millennial customers. Ultimately, we anticipate that these pressures could result in slower revenue and earnings growth.

Outlook

Given the long-term and business-focused nature of our investment approach, we typically avoid making calls on the direction of the market. Rather, we remain focused on the fundamental strengths and long- term growth prospects of the businesses held by the Fund, which are typically independent of macro events and/or conditions.

Beyond the economic and geopolitical backdrop, there are very powerful secular trends that are being driven by a small subset of businesses around the world. These businesses are either disrupting their industries through innovation or are selling 'needs' – not 'wants' – to their customers. We believe all the Fund's businesses are benefiting from very durable, long-term structural changes happening around the world. We are optimistic about the growth prospects for these businesses and believe they can deliver strong business results and earnings growth over our five-year investment horizon.

Harbor
Trusted Partnerships › Trusted Solutions

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ECONOMIC SECTORS

	% of Net Assets
Information Technology	27.49
Industrials	18.84
Health Care	15.98
Financials	13.68
Consumer Discretionary	9.89
Communication Services	4.63
Consumer Staples	3.89
Real Estate	2.30

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. VISA Inc.	4.55
2. Adobe Inc.	3.94
3. AIA Group Ltd.	3.94
4. TransDigm Group Inc.	3.92
5. Alimentation Couche-Tard Inc.	3.89
6. HDFC Bank Ltd. ADR	3.65
7. Texas Instruments Inc.	3.61
8. Keyence Corp.	3.55
9. Zoetis Inc.	3.49
10. CSL Ltd.	3.33

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Safran SA	2.94
Intuit Inc.	2.86
Dollar General Corp.	2.21
Temenos AG	2.21
Verisk Analytics Inc.	2.01
Rentokil Initial plc	1.50
Monotaro Co. Ltd.	1.06
Sea Ltd. ADR	1.06
Boeing Company	0.00
Industria de Diseno Textil SA	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (03/01/2009)	Expense Ratios Net	Expense Ratios Gross
Harbor Global Leaders Fund - *INST*	8.30%	35.83%	12.27%	13.10%	17.62%	0.86%	1.05%
MSCI All Country World (ND) Index	8.95%	26.60%	8.41%	8.79%	13.08%		

TOP TEN COUNTRIES

Country	% of Net Assets
United States	53.92
Japan	8.79
France	6.48
Switzerland	4.15
Hong Kong	3.94
Canada	3.89
India	3.65
Australia	3.33
United Kingdom	2.95
Taiwan	2.49

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.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund are subject to a contractual management fee waiver and an expense limitation agreement, excluding interest expense, if any, through 05/31/2020.

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

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.

Since the Fund typically invests in a limited number of companies, an adverse event affecting a particular company may hurt the Fund's performance more than if it had invested in a larger number of companies.

At times, a growth investing style may be out of favor with investors which could cause growth securities to underperform value 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, Sands Capital Management, LLC, 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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