Harbor International Fund

Manager Commentary
As of 06/30/2020

Subadviser: Marathon Asset Management LLP *(Since 08/22/2018)*
Portfolio Managers: Neil M. Ostrer, Charles Carter, Nick Longhurst, William J. Arah, Simon Somerville, Michael Nickson, CFA, Michael Godfrey, CFA, David Cull, 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 International Fund (Institutional Class, "the Fund") returned 14.87%, performing in line with its benchmark, the MSCI EAFE (ND) Index, which returned 14.88%.

During the quarter, investors began to discount a so-called 'V-shaped' recovery, even as a tidal wave of stimulus swept equity markets off the COVID-19-induced lows experienced near the tail end of March. Stock-specific exposure within Japan, which is more domestically orientated, was the primary culprit behind the muted relative returns delivered over the three months. Underweight exposure to the stronger Australian Dollar, overweight exposure to the weaker British Pound, and stock-level exposure in Hong Kong also weighed on returns. Elsewhere, stock selection within Europe, particularly in the U.K., and the Fund's limited out-of-benchmark allocation to emerging markets contributed positively to relative performance.

From a sector standpoint, relative gains delivered as a result of the Fund's overweight allocation to Industrials were more than offset by stock-specific exposure in that sector. Stock-level exposure within the Information Technology and Health Care sectors also weighed on performance. Conversely, the Fund's underweight allocation to the Energy sector and stock selection within Consumer Discretionary added positively to overall results.

Contributors and Detractors

Contributors to the Fund during the second quarter included meal kit company HelloFresh. 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.

The Fund's relative underweight exposure to banking giant HSBC also contributed positively, as the company set aside $3 billion in loan-loss provisions and saw first half profits nearly cut in half.

Not owning oil and gas heavyweight Royal Dutch Shell contributed positively to Fund returns, as the Energy sector experienced another tumultuous quarter.

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.

Nippon Telegraph and Telephone gave up some of its relative gains from the previous quarter. More generally, defensive characteristics were seen as less attractive by investors eying a resumption of economic activity. This return to a pattern of share-price momentum in favor of 'growthier,' export-oriented businesses, regardless of valuation, weighed on the Fund's positioning within Japan more broadly.

The underweight to mining behemoth BHP also hurt relative returns, as its shares appreciated in line with commodity price momentum.

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. 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 returns on 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.

BEC World, a Thai TV channel, was sold during the quarter due to a waning of the investment case. The company used to have a dominant market position in content; however, there was a breakdown on the supply side due to the issuance of new licenses and alternative forms of delivery, such as the internet.

Outlook

Our outlook remains much the same as last quarter. 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.

Harbor
Trusted Partnerships › Trusted Solutions

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ECONOMIC SECTORS

	% of Net Assets
Industrials	23.09
Consumer Discretionary	13.86
Health Care	12.71
Financials	11.84
Consumer Staples	11.26
Communication Services	7.97
Information Technology	7.76
Materials	5.93
Energy	2.10
Utilities	0.83
Real Estate	0.42

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Roche Holding AG	2.28
2. Coloplast AS	1.74
3. Vestas Wind Systems AS	1.49
4. Novo Nordisk AS	1.47
5. Intertek Group plc	1.40
6. HelloFresh SE	1.34
7. Rightmove plc	1.30
8. Reckitt Benckiser Group plc	1.10
9. Assa Abloy AB Class B	1.05
10. Geberit AG	1.03

TOP TEN COUNTRIES

Country	% of Net Assets
Japan	24.75
United Kingdom	23.34
Denmark	7.34
France	7.05
Germany	6.66
Switzerland	5.57
Netherlands	3.40
Sweden	2.99
Australia	2.97
South Korea	1.85

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/29/1987)	Expense Ratios Net	Expense Ratios Gross
Harbor International Fund - *INST*	14.87%	-6.31%	-0.87%	4.32%	9.46%	0.77%	0.88%
MSCI EAFE (ND) Index	14.88%	-5.13%	2.05%	5.73%	4.91%		

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 EAFE (ND) Index is an unmanaged index generally representative of major overseas stock markets. 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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