# Harbor International Growth Fund

**Manager Commentary**
*As of 06/30/2020*

**Subadviser:** Baillie Gifford Overseas Limited *( Since 05/21/2013)*
**Portfolio Managers:** Gerard Callahan, Iain Campbell, Joe Faraday, CFA, Moritz Sitte, CFA, Sophie Earnshaw, CFA

2nd Quarter, 2020

**"While we cannot predict the future or how markets will move in the coming months, we will continue to look for companies that have the potential to outperform over the long term."**

Baillie Gifford Overseas Limited

## Market in Review

Recently some of our colleagues participated in a reading day event centered around financial crises that have affected the world, going as far back as the Spanish flu of 1918. This topic made for a series of interesting discussions on global economic events and a reflection on lessons learned.

The Spanish Flu pandemic of 1918 is thought to have been the deadliest in human history. The effects of the pandemic on business were familiar: there was a drop in demand and temporary closure of many businesses, much like what we have seen happen globally during the last few months.

We cannot speak of the events of 1918 and the coronavirus pandemic of today without recognizing the transformational impact of technology on our society, the interconnectedness it has afforded us, and the benefits of thinking long term. Both the Spanish Flu and coronavirus pandemics remind us of the resilience, ingenuity, and endurance of the human spirit in the face of adversity.

For some perspective on just how far we have come, when Spanish Influenza tested the resolve of humanity, there were roughly two billion people on the planet. The newly-industrialized world was becoming densely populated, and the virus traveled easily thanks to mechanized transportation. In 2020, the age of megacities and affordable air travel, seven billion of us have been introduced to a new malady, the coronavirus. But while human proliferation may initially help to spread a virus, human ingenuity will ultimately create new solutions to combat it.

Other notable macro-level events that occurred during the second quarter included the political tensions in Hong Kong and negotiations between the U.K. and the European Union (E.U.). In Hong Kong, the political climate has been a headwind for some of the Fund's holdings there. In Europe, talks continue between the U.K. and the E.U., although the nature of any resulting trade agreement remains unclear. The U.K. government aims to complete the Brexit process by the end of the year.

## Portfolio Performance

In the second quarter of 2020, the Harbor International Growth Fund (Institutional Class, "the Fund") returned 26.14%, outperforming its benchmark, the MSCI All Country World Ex. US (ND) Index, which returned 16.12%.

Equity markets continue to be impacted by concerns around the coronavirus pandemic, and many have been pondering the potential impact of a second wave of the virus on global economies. We focus resolutely on the long term, and our thinking typically begins with a time horizon of three to five years. Our long term approach to investing means that we are focused on finding companies that can survive and grow over time. Several of the businesses in which we invest are at the forefront of innovation and operate in industries with long term structural opportunities. Throughout this crisis, we have been using technology to engage with each other regularly and we continue to research, share, and discuss new ideas for the Fund. While we cannot predict the future or how markets will move in the coming months, we will continue to look for companies that have the potential to outperform over the long term.

We have witnessed how this pandemic has, in some instances, accelerated what we call the online revolution and transformed the way consumers shop from the comfort of their homes. This shift to new consumption and purchasing habits is one instance of how accelerated, technology-enabled disruption has taken place as a result of lockdown restrictions. Holdings in the Fund exposed to the online revolution have been significant beneficiaries of this shift in behavior and, in many cases, this has been reflected in strong share price performance over the quarter.

The Fund's holdings in more traditional areas, such as brick and mortar retailers, performed less favorably during the quarter.

## Contributors and Detractors

In recent months we have been reminded of the significant influence of the online revolution and the corresponding evolution of consumer behavior. It is perhaps no surprise then that Shopify, the e-commerce platform facilitating online entrepreneurship, was a top performer during the quarter. Although we did not anticipate the current situation, we continue to believe there are compelling reasons as to why this business will be successful in the long term. Shopify's all-in-one platform has helped entrepreneurs of all sizes gain access to a global customer base at the click of a button. Its business continues to grow rapidly and take market share. Zalando, the European online fashion platform, saw an acceleration of active customers, as consumers sought alternatives to physical store shopping. A question remains for us as investors: how much of this change in behavior will prove permanent after restrictions are lifted?

Stocks that detracted from performance in the quarter included Japanese insurance company, MS&AD Insurance, and Portuguese food retailer, Jerónimo Martins. As with many businesses in the insurance industry, MS&AD has faced a challenging climate during the coronavirus pandemic.

Jerónimo Martins is a Portuguese group that operates food retail stores in Portugal, Poland, and Columbia. It is vertically integrated into distribution and manufacturing in all the countries in which it operates. Recently the company's share price has suffered following its announcement that profits were weaker than expected, reflecting an increase in debt financing costs.

### Buys and Sells

During the quarter we bought a holding in Kering, the parent company of several luxury brands, including Gucci. The group experienced a recent decrease in demand as stores were closed and consumers stayed at home. Ultimately, we believe the company is well-positioned to benefit from one of the growth drivers that underpins several of the Fund's existing holdings: the rise of the global middle class. It is consumers in Asia and emerging markets that are the next generation's buyers of luxury brands, and we believe that over the next decade we will see continued strong growth in the Asian middle-class consumer. In Kering we are confident that the management teams are aligned with external shareholders, and we admire their track record of investing for growth.

We funded these purchases with the sale of holdings where our conviction had been waning. Schindler, a global elevator and escalator manufacturer, is one of these holdings. Although Schindler has been a long-standing holding, we do not feel that the growth opportunity over the next decade is compelling enough to justify its continued presence in the Fund.

### Country Allocation

The Fund's country allocations remained broadly similar throughout the quarter. Sweden, Japan, and Germany continued to be among the most overweight positions, while China, Switzerland, and France were the largest underweights at the end of the quarter. As the Fund is constructed on a stock by stock basis, positions in individual countries do not necessarily represent an investment view on those economies; they are simply a reflection of where we have found our best ideas. The recent sale of Schindler allowed us to add to other country positions.

### Outlook

Many influences impact the positioning of the Fund, but hopefully, this summary provides a window into our investment process, and what has engaged us over the last quarter. We do not seek to dismiss the distress and tragedy that have resulted from the virus itself and the inconvenience of the sudden changes in living and working habits that have followed. However, we think it is appropriate to recognize how technology, ingenuity, and innovation have helped mitigate some of these challenges and indeed have created business opportunities.

There has been plenty of speculation from the commentariat on whether we are nearer the end of the beginning or the beginning of the end of this crisis, so we will not add to it here. What we can say is that we are confident we have assembled a Fund of high quality, sensibly managed businesses that, we believe, are well placed to weather a continuation of these difficult times but are also agile and ambitious enough to seize opportunities for growth as they start to emerge.

# Harbor International Growth Fund

**Manager Commentary**
*As of 06/30/2020*

**Subadviser:** Baillie Gifford Overseas Limited *( Since 05/21/2013)*
**Portfolio Managers:** Gerard Callahan, Iain Campbell, Joe Faraday, CFA, Moritz Sitte, CFA, Sophie Earnshaw, CFA

## ECONOMIC SECTORS

| | % of Net Assets |
|---|---|
| Consumer Discretionary | 21.38 |
| Information Technology | 17.35 |
| Industrials | 16.47 |
| Consumer Staples | 11.09 |
| Communication Services | 10.79 |
| Financials | 10.67 |
| Health Care | 9.09 |
| Materials | 2.18 |
| Energy | 0.24 |

## TOP TEN HOLDINGS

| Company Name | % of Net Assets |
|---|---|
| 1. Shopify Inc. | 4.92 |
| 2. Taiwan Semiconductor Manufacturing Co | 2.94 |
| 3. Alibaba Group Holding Ltd. ADR | 2.83 |
| 4. ASML Holding NV | 2.41 |
| 5. Zalando Se | 2.38 |
| 6. Bechtle AG | 2.26 |
| 7. Sartorius AG | 2.26 |
| 8. Olympus Corp. | 1.99 |
| 9. SMC Corp. | 1.82 |
| 10. Naspers Ltd. | 1.82 |

## TOP TEN COUNTRIES

| Country | % of Net Assets |
|---|---|
| Japan | 19.94 |
| United Kingdom | 11.04 |
| Germany | 9.02 |
| China | 8.38 |
| Sweden | 7.26 |
| Canada | 5.48 |
| France | 4.47 |
| India | 4.22 |
| Netherlands | 3.34 |
| Australia | 3.21 |

## TOTAL RETURNS

| | Three Months | 1 Yr. | 5 Yr. | 10 Yr. | Since Incp. (11/01/1993) | Expense Ratios Net | Expense Ratios Gross |
|---|---|---|---|---|---|---|---|
| **Harbor International Growth Fund** - *INST* | 26.14% | 11.39% | 6.62% | 7.59% | 4.09% | 0.85% | 0.91% |
| MSCI All Country World Ex. US (ND) Index | 16.12% | -4.80% | 2.26% | 4.97% | N/A | | |

***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.*

*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.*

*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, Baillie Gifford Overseas Limited, 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.***

***Harbor Funds is distributed by Harbor Funds Distributors, Inc.***