Harbor Mid Cap Value Fund

Manager Commentary
As of 06/30/2020

Subadviser: LSV Asset Management *(Since 09/30/2004)*
Portfolio Managers: Josef Lakonishok, Ph.D., Menno Vermeulen, CFA, Puneet Mansharamani, CFA, Greg Sleight, Guy Lakonishok, CFA

2nd Quarter, 2020

"Fund holdings are trading at extremely attractive levels and a significant discount to the value benchmark, yet at the same time are generating positive cash flow and earnings."

LSV Asset Management

Market in Review

Global equity markets rebounded in the second quarter, regaining most of the losses Global equity markets rebounded in the second quarter, regaining most of the losses from the historic decline in the first quarter, as economies began to slowly reopen, and central banks provided significant monetary support for markets. U.S. equities surged as the S&P 500 returned 20.5%. Value stocks in the U.S. continued to lag Growth stocks across all market capitalization segments. Among mid-cap stocks, the Russell Midcap® Value Index returned roughly 20.0%, while the Russell Midcap® Growth Index advanced 30.3%. Over the first six months of the year, the Russell Midcap® Value Index is down 18.1%, while the Russell Midcap® Growth Index is up 4.0%. Small-cap stocks, as measured by the Russell 2000® Index, returned 25.4% to lead mid- and large-cap stocks in the second quarter.

U.S. equity markets rebounded and recovered nearly all of the first quarter losses, as aggressive actions by the Federal Reserve (“the Fed”) and significant government stimulus helped stabilize the economy and markets. The Fed indicated it would continue to keep the federal funds rate near zero until at least 2022 and announced plans to purchase corporate bonds in the secondary market. Lockdown restrictions also eased, which led to improved employment numbers and encouraging retail sales data and aided market recovery. On the employment front, the U.S. economy added over 2 million jobs in May, while the consensus estimate was a loss of 8 million jobs. While the increase in jobs was unexpected, the economy has a long way to go to recover the lost jobs from March and April. Retail sales in the U.S. rose 17.0% in May compared to April but remain depressed year over year.

All sectors in the Russell Midcap® Value Index rebounded and posted gains in the quarter. The Energy sector was the top performer in the benchmark, advancing over 50.0% after falling 60.0% in the first quarter. Consumer Discretionary stocks also rebounded, as the improvement in retail sales and the re-opening of the economy had a positive impact on the sector. Technology stocks continued to post strong gains and remain one of the top performing sectors in the benchmark, year to date. Defensive sectors including Utilities and Consumer Staples, that held up relatively well in the first quarter, lagged in the second quarter market recovery.

Portfolio Performance

In the second quarter of 2020, the Harbor Mid Cap Value Fund ("the Fund" Institutional Class) returned 21.95%, outperforming its benchmark, the Russell Midcap® Value Index, which returned 19.95%. The Fund rebounded and outperformed its benchmark after a difficult first quarter. Value stocks continued to lag Growth stocks during the period. However, stocks we emphasized, that were cheap on cash flow and earnings measures, rebounded and benefited Fund performance in the quarter. Small-cap stocks led the market, and our tilt toward smaller companies compared to the benchmark also had a positive impact on relative results.

Both stock and sector selection added value in the second quarter. Our underweight allocation to the Utilities sector, which failed to keep up in the rising market, and our overweight exposure to Consumer Discretionary stocks, which rebounded, both contributed to performance. Stock selection was particularly strong in the Consumer Discretionary and Financials sectors. Within Consumer Discretionary, our holdings among general merchandise, specialty stores, and homebuilders outperformed. Within Financials, our holdings among regional banks, asset management and custody banks, and mortgage REITs all contributed to the relative outperformance. This was somewhat offset by detrimental positioning in the Technology sector; the Fund's underweight allocation to semiconductors, as well as holdings in technology hardware stocks, detracted from returns in the second quarter. The Fund's sector weightings are a residual outcome of the bottom-up stock selection process.

Contributors and Detractors

Top individual contributors to Fund performance included positions within the Consumer Discretionary and Financials sectors. Several holdings in the Consumer Discretionary sector rebounded as the economy began to reopen, including retailers Big Lots and Dick's Sporting Goods; both contributed in the quarter as did several homebuilders, including Meritage Homes and Toll Brothers. Many of the Fund's Financials holdings also rebounded after a difficult first quarter, including Ameriprise Financial, insurer Lincoln National, and mortgage REIT PennyMac Mortgage Investment Trust.

The largest detractors were concentrated in the Technology, Consumer Staples, and Health Care sectors. Among Technology stocks, long term holdings Seagate Technology, HP, and Xerox all lagged in the quarter. After faring relatively well in the first quarter, several holdings in the Consumer Staples sector lagged, including JM Smucker, Kroger, and Molson Coors. Similarly, Health Care holding Davita declined in the second quarter after contributing positively in the first quarter.

Buys and Sells

We initiated a position in the internet and direct marketing retailer eBay, within the Consumer Discretionary sector. The company ranks high from a valuation standpoint on many cash flow and earnings measures. While eBay has little in terms of book value and does not pay a dividend, we put more weight on the ability of a company to generate strong cash flow and earnings. Recent momentum is strong, both in terms of price momentum and our measures of operating momentum. Particularly notable are improvements in margins and earnings growth, which boosted the attractiveness of the stock.

During the quarter, we sold PDC Energy, an independent oil and gas exploration and production company in the Energy sector. PDC Energy acquired Fund holding SRC Energy in the first quarter of 2020. While the Fund is underweight-allocated to exploration and production stocks, PDC Energy ranks poorly on our stock ranking model after the acquisition of SRC Energy, and subsequently, became a candidate for sale. The crash in oil prices early this year negatively impacted all exploration stocks including PDC Energy. While the stock regained some ground in the second quarter, price and operating momentum over the last 12 months have been poor. The company does not pay a dividend and issued shares over the last year, which also reduced the expected return of the stock.

Outlook

LSV Asset Management does not develop an outlook for U.S. equities from a macro perspective. We have seen some improvement in many of our stocks as the economy begins to reopen, but it remains unclear if the economy will recover quickly or suffer additional setbacks. While the overall market rebounded nicely in the second quarter, the valuation gap between Growth and Value stocks continued to widen, particularly when compared to the beginning of the year. We believe that the valuation spreads are not sustainable, and that valuations will eventually revert to historical norms. Fund holdings are trading at extremely attractive levels and a significant discount to the value benchmark, yet at the same time are generating positive cash flow and earnings.

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ECONOMIC SECTORS

	% of Net Assets
Financials	20.49
Consumer Discretionary	13.27
Industrials	13.16
Real Estate	10.07
Health Care	8.66
Materials	8.58
Utilities	7.85
Information Technology	6.80
Consumer Staples	6.23
Energy	2.87
Communication Services	1.51

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Ameriprise Financial Inc.	1.73
2. Vistra Energy Corp.	1.71
3. PPL Corp.	1.61
4. Kroger Co.	1.53
5. National Fuel Gas Co.	1.48
6. Alexion Pharmaceuticals Inc.	1.38
7. Citizens Financial Group Inc.	1.35
8. Whirlpool Corp.	1.35
9. Eastman Chemical Co.	1.32
10. Lincoln National Corp.	1.30

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (03/01/2002)	Expense Ratios Net	Expense Ratios Gross
Harbor Mid Cap Value Fund - *INST*	21.95%	-20.43%	-1.55%	8.18%	5.64%	0.86%	0.89%
Russell Midcap® Value Index	19.95%	-11.81%	3.32%	10.29%	8.39%		

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 sectors 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 Russell Midcap® Value Index is an unmanaged index generally representative of the U.S. market for medium capitalization value stocks. The Russell Midcap Index is an unmanaged index generally representative of the U.S. market for medium capitalization stocks. These unmanaged indicies do not reflect fees and expenses and are not available for direct investment. The Russell Midcap® Value Index, Russell Midcap Index, and Russell® are trademarks of Frank Russell Company.

Stocks of 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, LSV Asset 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.

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.