Harbor Money Market Fund

Manager Commentary
As of 06/30/2020

Subadviser: BNP Paribas Asset Management USA, Inc. *(Since 12/27/1987)*
Portfolio Manager: Kenneth J. O'Donnell, CFA

2nd Quarter, 2020

"Monetary policy rates, in our view, will likely remain in crisis mode through 2021, as the economic recovery ensues."

BNP Paribas Asset Management USA, Inc.

Market in Review

The global economy collapsed in the second quarter, as the COVID-19 pandemic spread around the globe. Governments responded to the health crisis by shutting down all but essential businesses to slow the pace of contagion. Risk markets slowly recovered from the panic-driven sell-off in late March that pushed equity markets to bear-market thresholds and credit spreads to levels not seen since the last recession. Markets appeared to look through extremely weak economic data with optimism, fueled by the reopening of major economies. The combined efforts of monetary and fiscal authorities continued to provide stability to markets and to calm fears, though the longer term implications of the crisis remain uncertain.

Markets rebounded after the initial shock, though U.S. Treasury yields remained at the low end of their historical range. Short term U.S. Treasury Bills traded with positive yields during the second quarter, after spending a brief period in negative territory in late March. Flows in the money market sector stabilized, though assets remained elevated. Credit spreads tightened across sectors. Many issuers seized the opportunity to raise funds in the primary market to manage through the recession.

The U.S. Federal Reserve (the Fed) reduced interest rates to the zero lower bound while implementing crisis-era policy measures. The Federal Funds rate was reduced to a target range between 0% and 0.25%, and balance sheet purchases of U.S. Treasuries and agency mortgage-backed securities resumed for the first time since the last recession. Additional steps were taken to support the commercial paper and corporate refinancing markets.

The Harbor Money Market Fund (the Fund) invests solely in government securities from the U.S. Treasury and agency markets. The sudden decline in market interest rates had an adverse impact on the Fund's yield, as maturing securities are reinvested at near zero yields. Unfortunately, yields in the money market sector are likely to remain low for an extended period of time.

Our outlook for the U.S. economy remains cautiously optimistic. In the near term, we believe the U.S. economy will rebound from the severe deceleration in growth experienced in the second quarter. However, it appears unlikely that a technical recession can be avoided during the calendar year, in our view. We believe global demand will be restored later this year, with positive growth in 2021. This assumes, of course, that the viral pandemic is contained.

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Portfolio Performance

In the second quarter of 2020, the Harbor Money Market Fund (Institutional Class) returned 0.07%, outperforming its benchmark, the ICE BofAML US 3-Month Treasury Bill Index, which returned 0.02%.

The Fund outperformed the proxy benchmark on an after-fee basis during the quarter. The duration of the 3-Month U.S. Treasury Bill benchmark exceeds the two-month statutory maximum duration for SEC 2(a)7 money market funds. This duration gap results in a performance differential that is sensitive to the magnitude and timing of yield curve changes. In general, the return differential will widen as yields fall and narrow as yields rise. Actions taken by the U.S. Federal Reserve resulted in short term U.S. Treasury Bill yields moving toward the zero lower bound, where they remained during the quarter. While the Fund closely tracked the broad decline in U.S. Treasury Bill yields, a modest increase from the zero yields resulted in positive relative performance for the Fund.

Portfolio Positioning

Valuations in government money market securities declined to near zero levels, as monetary policy rates fell, and demand for safe-haven U.S. Treasury Bills soared. This seismic shock resulted in a 150-basis-point decline in money market yields on a year-to-date basis. We reduced active trading in the Fund in an effort to maintain its yield as long as possible.

The Fund's yield fell moderately during the second quarter and will likely remain at current levels for an extended period. Exposure to U.S. Treasury Bills increased, as spread levels in the agency discount note market became less attractive.

Outlook

We believe the COVID-19-related business closures across the U.S. economy led to an economic contraction in the first half of the calendar year, resulting in a technical recession. Markets, thus far, have looked through the slowdown and have begun to price in a global recovery in the second half of the year. Monetary policy rates, in our view, will likely remain in crisis mode through 2021, as the economic recovery ensues. With U.S. policy rates anchored, the yield curve could experience steepening, led by the intermediate tenors. We anticipate inflation will slowly return to the Fed's 2% target, as supply chains recover. Risk assets such as equities and credit spreads are likely to experience a pronounced recovery.

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ECONOMIC SECTORS

	% of Net Assets
Treasury Debt	80.89
Government Agency Debt	18.87

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. U.S. Treasury Bills	12.31
2. U.S. Treasury Bills	11.41
3. U.S. Treasury Bills	11.32
4. U.S. Treasury Bills	11.22
5. U.S. Treasury Bills	11.12
6. U.S. Treasury Bills	10.97
7. U.S. Treasury Bills	7.59
8. Federal Home Loan Bank Discount Notes	6.12
9. U.S. Treasury Bills	4.96
10. Federal Home Loan Bank Discount Note	4.96

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/29/1987)	Expense Ratios Net	Gross
Harbor Money Market Fund - *INST*	0.07%	1.23%	1.02%	0.56%	3.07%	0.28%	0.35%
ICE BofAML US 3-Month Treasury Bill Index	0.02%	1.63%	1.19%	0.64%	3.21%		

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.

Current 7-Day Subsidized SEC Yield – INST Class: 1.05%. Average annualized income dividend over the last 7 days. Reflects reimbursements or waivers of fees currently in effect.

Current 7-Day Unsubsidized SEC Yield – INST Class: 0.95%. Average annualized income dividend over the last 7 days. Does not reflect reimbursements or waivers of fees currently in effect.

Current yield is annualized and excludes gains and losses as defined by the Securities and Exchange Commission. The current yield more closely reflects the current earnings of the Harbor Money Market Fund than the total return.

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 ICE BofAML US 3-Month Treasury Bill Index is comprised of a single U.S. Treasury Bill issue purchased at the beginning of each month and held for a full month, at which time that issue is sold and rolled into a newly selected issue. The issue selected each month is that having a maturity date closest to, but not beyond 90 days from the rebalance date.

You could lose money by investing in the Harbor Money Market Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the FDIC or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and you should not expect the sponsor to provide financial support to the Fund at any time.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, BNP Paribas Asset Management USA, Inc., 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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