Harbor Overseas Fund

Manager Commentary
As of 06/30/2020

Subadviser: Acadian Asset Management LLC *(Since 03/01/2019)*
Portfolio Managers: Brendan O. Bradley, Ph.D., Ryan D. Taliaferro, Ph.D., Harry Gakidis, Ph.D.

2nd Quarter, 2020

"The recent rebound in equity market sentiment stands in stark contrast to the more somber economic reality and prospects for recovery."

Acadian Asset Management LLC (Acadian)

Market in Review

Despite pervasive uncertainty about the speed and scope of a global economic recovery, investors remained bullish in the second quarter, encouraged by nascent signs of revival, as economies reopened. COVID-19 and the “Great Lockdown” delivered a staggering blow to the global economy, yet developed equity markets gained 18.5%, underscoring an apparent disconnect with the economic reality and true prospects for recovery, as investors appeared sufficiently assuaged by policy support for the crisis. Such support, while swift and substantial, may have obscured a number of downside risks and set expectations that governments will continue to flood economies with aid.

Emerging markets nearly kept pace, rising 16.7%. For many emerging markets now facing the brunt of the COVID-19 crisis, the fiscal and social response to the virus has been inadequate. Several markets remain vulnerable to the pandemic amid underfunded health-care systems, record capital outflows, and foreign exchange shortages. Exporters were particularly exposed, as globalized trade retreated and commodities collapsed.

Portfolio Performance

In the second quarter of 2020, the Harbor Overseas Fund (Institutional Class, “the Fund”) returned 17.47%, outperforming its benchmark, the MSCI EAFE (ND) Index, which returned 14.88%. On a net basis, the Fund outperformed its benchmark by 192 basis points (bps). Stock selection detracted from return (-10 bps), while country allocations were positive (+202 bps).

Key sources of positive active return included a combination of stock selection and an underweight position in the United Kingdom (+93 bps), an opportunistic exposure to Poland (+58 bps), and stock selection in France (+47 bps). Leading advances within these markets, respectively, included a lack of exposure to HSBC Holdings, a holding in Ten Square Games, and an investment in Sartorius Stedim Biotech.

Detractors included stock selection in Japan (-118 bps), stock selection in the Netherlands (-29 bps), and an underweight position in Germany (-21 bps). Leading declines within these markets, in turn, included a position in NTT DoCoMo, a lack of exposure to ASML Holding, and a lack of exposure to SAP.

From a sector perspective, key sources of positive active return included a combination of stock selection and an overweight position in Information Technology (+100 bps), a combination of stock selection and an underweight position in Consumer Staples (+100 bps), and an underweight position in Energy (+56 bps). Leading advances within these sectors, respectively, included a position in Nice, a holding in Swedish Match, and a lack of exposure to Royal Dutch Shell.

Detractors included a combination of stock selection and an overweight position in Communication Services (-62 bps), a combination of stock selection and an overweight position in Financials (-28 bps), and an underweight position in Industrials (-18 bps)—including an investment in NWS Holdings.

Contributors and Detractors

Shares of Fortescue Metals Group, an Australian-based iron ore company, rose in the second quarter, contributing 64 bps to the Fund's active return.

As noted above, the Fund's opportunistic exposure to Poland included a holding in Ten Square Games, a mobile and browser games developer, which contributed 52 bps to the Fund's active return.

Japan's big mobile phone operator, NTT DoCoMo, led declines within Communications Services and detracted from the Fund's performance. Similarly, Japan Post Bank detracted from returns, again, partly due to stock selection and an overweight to Financials.

Buys and Sells

Purchase decisions are made in conjunction with sell decisions; the process is completely objective, systematic, and driven by changes in expected returns. After computing the forecasted returns, the investment process ranks all securities in Acadian's universe, determining the most attractive securities to buy for the Fund based on investment guidelines as well as transaction and liquidity considerations. For a stock to be purchased, it must have a superior alpha forecast (including a hurdle for estimated transaction costs) compared with an existing holding and other potential holdings. Essentially, if a stock is more attractive than an existing holding, allowing for the transaction costs of both the sell and the buy, it will be bought.

Nestle meets these criteria and was acquired during the quarter. The company exhibits a favorable top-down outlook, driven by a favorable country forecast, in our view. The company was also attractive based on comparisons with its peers and technical factors.

A stock will be sold in a subsequent rebalance if its expected return deteriorates to the point where it can be replaced by a more attractive stock that plays an equally useful diversification role. The replacement stock's expected return must be enough to more than cover the expected transaction costs of selling the original stock.

Adhering to these guidelines, NXP Semiconductors was sold during the quarter, as the company scores negatively on technical, quality, and growth factors.

Country Allocation

Active country weights are driven by underlying stock selection. During the quarter, a slight underweight position to Finland shifted to an overweight position. Underweight positions in the U.K. and Australia were pared but remained below the benchmark weights. Meanwhile, the Fund's overweight positions in the Netherlands, Sweden, and Italy were pared, but remained greater than the benchmark weights.

As at June 30, 2020, the Fund maintains notable opportunistic exposures to a number of emerging markets, including South Korea and Korea. The Fund also allocates outside the benchmark to Canadian stocks. Israel, the Netherlands, and Italy are the largest active country weights in developed markets. Meanwhile, the Fund has underweight allocations to the U.K., Japan, and France.

The Fund's exposure to developing markets did not materially change during the quarter.

Outlook

The economic fallout from the COVID-19 pandemic and the "Great Lockdown" has been worse than anticipated, and recovery is now projected to be more gradual than previously forecast. In June, the International Monetary Fund (IMF) slashed its global growth forecast to -4.9% for 2020, 1.9 percentage points below its April forecast. The global economy is in the throes of the deepest recession since the Great Depression, with many countries seeing Gross Domestic Product (GDP) declines in excess of 20%, along with a precipitous rise in unemployment. The recent rebound in equity market sentiment stands in stark contrast to the more somber economic reality and prospects for recovery.

While the virus continues to recede in most regions, there is pervasive uncertainty regarding the evolution of the pandemic. A second wave of contagion could quash nascent signs of economic revival, with cases in several countries again on the rise. Growth prospects are murky and will depend on the magnitude and persistence of the outbreak, the pace at which containment measures are lifted, and the speed at which fiscal- and monetary-policy support take root. We believe the speed and strength of the recovery is contingent on economic normalization — which cannot be achieved until economies are able to fully and sustainably reopen. The pandemic will likely leave long-lasting scars in many economies.

While growth prospects are sobering, with all regions projected to experience contraction in 2020, there is considerable variation across economies. Factors driving diverging forecasts include contagion rates, the effectiveness of containment measures, the economic importance of the most severely affected sectors, and the ability to deploy a strong and targeted policy response. Medical breakthroughs could substantially alter the forecast, expediting a much-needed shift to economic normalization, in our view.

We also believe that widespread social unrest poses additional challenges to the global economy, particularly as the pandemic has brought renewed focus on inequality across workers. Those unable to telework are more likely to be unemployed, while also experiencing unequal access to quality health care and social protection—resulting in a disproportionate share of the social and economic consequences from the outbreak.

Sizable fiscal- and monetary-policy responses in more than two-thirds of governments across the world have forestalled the worst-case, near-term losses. These emergency lifelines, while appropriate, have led to a surge in government debt and deficits and will likely constrain the scope of further fiscal support and potentially lead to debt service difficulties. The IMF projects global public debt to reach more than 100% of GDP this year.

While the evolution of the COVID-19 crisis is a key factor shaping global economic activity, it is not the sole risk to the global outlook, in our view. The eventual recovery from the pandemic will be imperiled without a durable solution to global trade frictions, deep-rooted technology tensions, strained relations between the Organization of the Petroleum Exporting Countries (OPEC) and the coalition of oil producers, widespread social unrest, and spiraling government debt.

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Trusted Partnerships › Trusted Solutions

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ECONOMIC SECTORS

	% of Net Assets
Health Care	22.05
Financials	18.43
Information Technology	14.83
Communication Services	12.72
Consumer Discretionary	7.86
Industrials	7.83
Materials	6.72
Consumer Staples	5.04
Utilities	2.08
Real Estate	1.35
Energy	0.44

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Roche Holding AG	3.70
2. Novartis AG	2.86
3. Fisher & Paykel Healthcare Corp. Ltd.	2.54
4. Novo Nordisk AS	2.34
5. Fortescue Metals Group Ltd.	2.07
6. Allianz SE	1.98
7. Fujitsu Ltd.	1.98
8. Koninklijke Ahold Delhaize NV	1.93
9. Wolters Kluwer NV	1.90
10. Koninklijke Philips NV	1.86

TOP TEN COUNTRIES

Country	% of Net Assets
Japan	20.83
United Kingdom	9.40
Switzerland	7.64
Netherlands	6.72
France	5.85
Australia	5.78
Germany	5.23
Israel	4.19
Sweden	4.14
Italy	3.99

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (03/01/2019)	Expense Ratios Net	Expense Ratios Gross
Harbor Overseas Fund - *INST*	17.47%	0.15%	N/A	N/A	1.46%	0.85%	1.29%
MSCI EAFE (ND) Index	14.88%	-5.13%	N/A	N/A	-0.77%		

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. 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. These unmanaged indices do not reflect fees and expenses and are not available for direct investment.

The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

There is no guarantee that the investment objective of the Fund will be achieved. Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions. 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.

The value of securities selected using quantitative analysis can react differently to issuer, political, market, and economic developments than the market as a whole or securities selected using only fundamental analysis. The factors used in quantitative analysis and the weight placed on those factors may not be predictive of a security's value. In addition, any model may contain flaws or the model may not perform as anticipated.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Acadian Asset 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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