



Harbor Small Cap Growth Fund

Manager Commentary

As of 06/30/2020

Subadviser: Westfield Management Company, L.P. (Since 11/01/2000)

Portfolio Managers: William A. Muggia, Richard D. Lee, CFA, Ethan J. Meyers, CFA, John M. Montgomery

2nd Quarter, 2020

"As we have said in the past, we remain committed to a balanced approach within the Fund and have exposure to both defensive stocks, which provide a ballast during turbulent times, as well as those more economically-sensitive names that should benefit most when activity resumes to pre-crisis levels."

Westfield Capital Management Company, L.P.

Market in Review

The second quarter of 2020 witnessed the single largest, quarterly gain for stocks in over 30 years. Stocks snapped back from their March lows as violently as they had sold off during the early days of the crisis. The announcements of massive stimulus measures, improving COVID-19 trends, and a growing consensus that the worst of the market meltdown was behind us, led to a rally in equity markets, which persisted for much of the quarter.

Despite large-scale business closures and record-breaking joblessness, investor sentiment shifted quickly from debating how far stocks could fall to how quickly they could rise, as the rolling re-opening of the U.S. economy began. Swift reversals in business activity and consumer spending were evident, as pent-up demand for goods and services was exhausted.

However, coinciding with the progress for state re-openings, there were concerns regarding COVID-19 case trends, which arose in some regions of the U.S. This was particularly evident in Southern and Western states and already has made an impact on spending and mobility patterns. Further complicating matters, a resumption of U.S.-China tensions and increasing focus on the November presidential election, added to the uncertainty heading into the second half of the year.

Portfolio Performance

In the second quarter of 2020, the Harbor Small Cap Growth Fund (Institutional Class) returned 31.89%, outperforming its benchmark, the Russell 2000® Growth Index, which returned 30.58%.

The outperformance was broad-based, with six economic sectors adding to relative returns. The relative outperformance was primarily driven by the Fund's investments in Information Technology, Industrials, and Financials. These sectors outweighed relative weakness in Health Care and the impact of holding residual cash during the market advance.

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.

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Contributors and Detractors

SiTime Corporation, a manufacturer of timing devices for semiconductors, led relative performance for the Fund in the second quarter. Historically, these devices have been made of quartz, which can be brittle and are not adequate for extreme environments. SiTime, however, has created a silicon alternative with improved reliability and performance. We believe that the company's product is both unique and potentially superior to industry peers, leaving SiTime well positioned for long term growth, as its devices are engineered into new products.

Trex Company, a manufacturer of wood-alternative decking and railing, was another positive relative contributor during the quarter. We believe Trex continues to benefit from the shift in consumer spending patterns from travel and leisure to investing in outdoor living spaces at home. In our view, Trex is a high quality company with a strong balance sheet and should be well-positioned to continue to benefit from the stay-at-home theme.

Ironwood Pharmaceuticals, which develops and commercializes drugs for gastrointestinal conditions, was a detractor to Fund performance. Shares in the company lagged during the second quarter, as Ironwood did not participate in the strong biotech rally that was led by higher beta and higher risk names. Despite recent weakness, our thesis remains unchanged, and we continue to believe that the company's new management team has right-sized the cost structure, spun out excessive research & development (R&D), and focused on improving margins. In our view, Ironwood is the premier gastrointestinal, standalone franchise and we expect that its partner, AbbVie, could consolidate their joint venture in the future, now that AbbVie's acquisition of Allergan has closed.

Haemonetics, a global, medical technology company, also detracted from the Fund's relative returns during the quarter. The company suffered from continued delays in major plasma contract negotiations and concerns around plasma collection volumes during COVID-19. We exited our position due to growing concerns that there could be additional delays in the plasma contract negotiations.

Buys and Sells

YETI Holdings, a leading outdoor consumer brand, was added to the Fund during the quarter. YETI produces high quality products with a focus on design and innovation. We believe the company has a large addressable market and a major opportunity to expand its product assortment. Unmatched brand recognition and tailwinds from stay-at-home orders and car-length vacationing made this a compelling time to purchase the stock, in our opinion. At the time of our initial purchase in early May, YETI was trading at a price-to-earnings ratio of less than 20x consensus 2021 estimates. That represented a 10% discount to the stock's historical average (a 20% discount based on our internal estimates).

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Cerence, a leading provider of voice-activated assistance in automobiles, was sold from the Fund during the quarter. We decided to sell our position on strength, after the stock reached its price target. Concerns about the near term, retail auto sales-trends we are seeing in the U.S. and China was another factor in our decision.

Outlook

With rising COVID-19 cases across parts of the country and slowing progress re-opening the economy, the pace and duration of the recovery has become less certain. We feel the health of the U.S. economy largely depends on the health of small businesses across the country, the millions of people they employ, and the goods and services which they provide. How quickly we can all get back to work, as we once knew it, will dictate how long lasting the impacts of this virus will be on the economy at large, in our view.

As we have seen, thus far, the rapid adoption of technology, online commerce, and telecommuting stands to alter the trajectory of businesses operating in those segments forever. Other areas have seen demand for their goods and services evaporate almost overnight with an uncertain recovery. Gyms, cruise lines, and retail, brick-and-mortar stores have suffered tremendously, and many of these operations may not survive to see the return of their customers.

As we have said in the past, we remain committed to a balanced approach within the Fund and have exposure to both defensive stocks, which provide a ballast during turbulent times, as well as those more economically-sensitive names that should benefit most when activity resumes to pre-crisis levels. We have been encouraged by how the Fund's holdings have performed within this environment, and we remain committed to the pursuit of refining the Fund's positioning as the path forward regarding the crisis comes more clearly into view.



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ECONOMIC SECTORS

	% of Net Assets
Health Care	31.57
Information Technology	23.38
Consumer Discretionary	13.55
Industrials	10.12
Financials	9.21
Real Estate	5.05
Communication Services	3.02
Materials	1.78
Consumer Staples	1.36

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Pacira BioSciences Inc.	2.74
2. Icon plc	2.73
3. Amedisys Inc.	2.63
4. Topbuild Corp.	2.59
5. Ascendis Pharma A/S ADR	2.39
6. BIO-RAD Laboratories Inc.	2.28
7. Zynga Inc.	2.24
8. Timken Co.	2.19
9. Blueprint Medicines Corp.	2.18
10. Palomar Holdings Inc.	2.16

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (11/01/2000)	Expense Ratios	
						Net	Gross
Harbor Small Cap Growth Fund - INST	31.89%	12.06%	8.77%	13.83%	9.12%	0.88%	0.88%
Russell 2000® Growth Index	30.58%	3.48%	6.86%	12.92%	6.11%		

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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.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses.

The Russell 2000® Growth Index is an unmanaged index representing the smallest 2000 stocks with the highest price-to-book ratio and future earnings. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 2000® Growth Index and Russell® are trademarks of Frank Russell Company.

Stocks of small cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

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, Westfield Capital Management Company, L.P., 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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