



2nd Quarter, 2020

"We continue to position the Fund based on the underlying fundamentals of individual companies and the growth prospects relative to what is currently reflected in the stock price."

EARNEST Partners LLC

Market in Review

Capital markets recovered quickly in the second quarter, as the risks and dangers surrounding the coronavirus epidemic became clearer and potential impacts upon future earnings growth became quantifiable. Municipalities and corporations alike adapted to the situation by adopting personal protective equipment (PPE) requirements, enforcing social distancing standards, and embracing a work-from-home environment, enabling them to continue operations. Testing also became more widespread and the rate of infections' growth began to decline in many countries, establishing a potential timeline for the duration of the virus's effects on the global economy.

Additionally, investors were encouraged by signs of economic recovery evident in increased consumer spending, new home sales, and durable goods orders in May versus April. Furthermore, unemployment decreased in May and June after hitting a record high in April.

Portfolio Performance

In the second quarter of 2020, the Harbor Small Cap Value Fund (Institutional Class) returned 20.29%, outperforming its benchmark, the Russell 2000® Value Index, which returned 18.91%.

The U.S. small-cap equity market, as represented by the Russell 2000 Value® Index, experienced a strong rebound from the first quarter, while the Fund also posted strong absolute and relative returns for the period. Excluding the Utilities sector, all other sectors in the index were positive for the quarter, as more states began reopening their economies and businesses, following broad shutdowns in response to the COVID-19 pandemic. Consumer Discretionary, Energy, and Materials were the best performing sectors for the Fund, while Financials was the worst performing sector. Strategy performance was driven by strong stock selection, most notably in the Real Estate, Consumer Discretionary, and Information Technology sectors.

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.

The views expressed herein may not be reflective of current opinions, are subject to change without prior notice, and should not be considered investment advice.



Contributors and Detractors

Contributing to performance was Meritage Homes Corporation, an industry leader in the design and manufacture of single-family, energy-efficient homes. Headquartered in Scottsdale, Arizona, the company's diverse residential communities appeal to a variety of homebuyers across the Southern and Southeastern United States, but particularly first-time buyers. During the quarter, investors rewarded Meritage Homes for beating growth expectations, despite the building disruptions caused by COVID-19 earlier in the year. Driven by improved margins and higher, new home-closing sales, the company posted strong earnings versus the same period a year ago. As the general population of first-time homebuyers increases, the company has adjusted its strategy to develop more speculation homes that are more appealing to the entry-level customer, and also more efficient to build. Given the low interest rate environment along with expected rising home prices, we believe Meritage Homes is well-positioned to continue to improve on earnings and post strong financial results going forward.

Detracting from performance was Raymond James. The diversified brokerage company offers a comprehensive range of financial services, while focusing on investment and financial planning products and services to individuals, corporations, and municipalities through an independent advisor model. Its three principal, wholly owned broker/dealers have more than 8,100 financial advisors serving approximately 3.0 million accounts in approximately 2,800 locations throughout the United States, Canada, and overseas. During the quarter, the stock was up 9%, but trailed the index on lower-than-expected capital markets income. While investment banking revenues were down year-over-year, there was a strong increase in brokerage division revenues, which were up 26%, year-over-year. Raymond James has historically performed well following recessions and periods of volatility in stock markets. In markets comparable to today, financial advisors broke away from bulge-bracket firms to leverage the entrepreneurial structure of Raymond James' financial advisory division for their own long term benefit.

Buys and Sells

During the quarter, we acquired Sabre Corporation, a travel technology company based in Southlake, Texas. It is the largest, global distribution systems-provider for air bookings in North America. We believe the market is not giving the company enough credit for growth opportunities throughout our investment horizon. Therefore, it represents an attractive risk/reward trade-off, in our view.

Triumph Group is a supplier of aerospace services, structures, systems, and support. We exited the name due to risk management considerations.

Outlook

There were no new themes or trends introduced into the Fund during the quarter. We continue to position the Fund based on the underlying fundamentals of individual companies and the growth prospects relative to what is currently reflected in the stock price.



Harbor Small Cap Value Fund

Subadviser: EARNEST Partners LLC (Since 12/14/2001)
Portfolio Manager: Paul E. Viera

Manager Commentary

As of 06/30/2020

ECONOMIC SECTORS

	% of Net Assets
Information Technology	25.14
Industrials	23.58
Financials	20.01
Health Care	9.02
Real Estate	5.44
Consumer Discretionary	4.88
Materials	4.28
Consumer Staples	2.67
Energy	1.18

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Catalent Inc.	3.84
2. Cabot Microelectronics Corp.	3.32
3. Casella Waste Systems Inc.	3.22
4. Entegris Inc.	3.21
5. Teledyne Technologies Inc.	3.09
6. FormFactor Inc.	2.97
7. Monolithic Power Systems Inc.	2.91
8. Scotts Miracle-Gro Co.	2.75
9. Darling Ingredients Inc.	2.67
10. Molina Healthcare Inc.	2.42

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/14/2001)	Expense Ratios	
						Net	Gross
Harbor Small Cap Value Fund - INST	20.29%	-9.44%	5.07%	10.68%	9.04%	0.88%	0.88%
Russell 2000® Value Index	18.91%	-17.48%	1.26%	7.82%	6.90%		

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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® Value Index is an unmanaged index representing the smallest 2000 stocks with the lowest 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® Value 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 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, EARNEST Partners 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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