Harbor Strategic Growth Fund

Manager Commentary
As of 06/30/2020

Subadviser: Mar Vista Investment Partners, LLC *(Since 03/06/2017)*
Portfolio Managers: Silas A. Myers, CFA, Brian L. Massey, CFA, Joshua J. Honeycutt, CFA, Jeffrey B. Prestine

2nd Quarter, 2020

"The current environment may be unnerving, but it provides opportunities to increase the future return potential of our Fund."

Mar Vista Investment Partners, LLC

Market in Review

Equities posted their best quarterly gain since 1998. This quarter's increase appears to be driven by optimism around the economic reopening and promising coronavirus treatment options. The Federal Reserve's pledge to save our virus-ravaged economy has provided financial reassurance for equity and credit markets. Businesses are adapting to social distancing, but recovery patterns differ by industry. Subdued economic activity and employment are pandemic-related headwinds that may prove difficult to remedy. Public policies designed to slow the spread of the virus are accelerating digital trends that benefit a select group of technology companies. This highly concentrated cohort has an outsized impact on equity market performance. The path forward for asset prices will depend on policy actions taken by all levels of government to support the economic recovery and coronavirus treatment/vaccine approvals.

Portfolio Performance

In the second quarter of 2020, the Harbor Strategic Growth Fund ("the Fund" Institutional Class) returned 21.42%, underperforming its benchmark, the Russell 1000® Growth Index, which returned 27.84%. The Fund outperformed the S&P 500® Index, which returned 20.54%.

Positive stock selection in the Real Estate sector combined with an underweight exposure to the Health Care sector contributed to relative performance during the quarter, while Financials, Consumer Discretionary, and Information Technology detracted from short term results.

Contributors and Detractors

Detractors from performance during the second quarter included Berkshire Hathaway and Markel Corporation. Berkshire Hathaway trailed the market rebound during the second quarter, despite a sizable rebound in its equity portfolio, particularly within Apple. Low interest rates, the complete sale of its airline stock holdings, fears over sizable insurance claims due to the pandemic, lack of interest in Berkshire's collection of wholly-owned industrial and cyclical businesses, and the lack of investment activity despite a $130 billion cash war chest, all dampened investor interest in the stock.

In the case of Markel, despite a notable rebound in the company's stock portfolio, it materially lagged the averages during the second quarter. Low interest rates and fears over sizable insurance claims due to the pandemic were the primary reasons for investor apathy.

Contributors to performance during the quarter included technology giant Apple and computer software company Adobe. We believe Apple is well-positioned to emerge from the COVID-19 crisis stronger, given that its wide-moat platform enables cloud, mobile, and digital interactions, which are so critical in an increasingly digital world. Although fiscal year 2020 will be a trying year for Apple, we anticipate that it will benefit from increased adoption of its services offerings, which generate higher margins and are recurring in nature. Additionally, we believe the company remains on track to deliver several new 5G iPhone models in the Fall of 2020. In our view, this will drive revenue and earnings growth in fiscal year 2021 and beyond. We continue to believe Apple will grow intrinsic value in the low double-digits over our investment horizon.

Regarding Adobe, the company is benefiting from an accelerating shift to digital, cloud, and mobile-enabled solutions, making it a unique asset in the digital world, given that it will likely compound intrinsic value north of 20.0% over our investment horizon. Adobe benefits from its monopoly-like structure with its Creative Cloud solution and duopoly-like structure with its Experience Cloud solutions targeting digital marketers. We believe its strong competitive position coupled with its history of effective capital allocation should result in expanding returns on capital and significantly above-average intrinsic value growth.

Buys and Sells

We initiated a new position in Amphenol during the quarter. It is a leading manufacturer of interconnect and sensor products targeting a diverse set of end markets that include industrial, automotive, data center, aerospace and defense, and consumer electronics. The company benefits from content gains, as products across all of its end markets become smarter and more connected. Amphenol's competitive advantages stem from its intellectual property, high switching costs, and effective capital allocation. It engineers its products to operate in inhospitable environments, while performing critical functions in the most technologically demanding products, such as aerospace, automotive, and industrial equipment. Amphenol benefits from high switching costs, given that its products are highly reliable even in the toughest environments and require an original equipment manufacturer to redesign a product to switch vendors—an uneconomic proposition. Additionally, the group has a long history of effective capital allocation that includes organic research and development and inorganic mergers and acquisitions, while returning capital to shareholders via buybacks and dividends. We anticipate Amphenol will compound intrinsic value in the low teens over our investment horizon. Therefore, we initiated a position in the company when the margin of safety, relative to our estimate of its intrinsic value, opened up to create a beneficial risk-reward.

Our investment in Allergan was acquired by AbbVie and subsequently was sold from the Fund.

Outlook

Extraordinary fiscal and monetary stimulus is fostering stock price appreciation that is outpacing the growth of underlying business values. The risks of a second coronavirus outbreak and negative effects from the lockdown are being displaced by investor optimism. With the Fund's average discount to intrinsic value near all-time lows, we anticipate future returns to closely correlate with our companies' intrinsic value growth. The coronavirus will continue to dominate the headlines, but ultimately profits will steer equity prices over the long term. Our Fund is navigating the pandemic with well-capitalized serial compounders. The current environment may be unnerving, but it provides opportunities to increase the future return potential of our Fund.

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ECONOMIC SECTORS

	% of Net Assets
Information Technology	29.98
Financials	17.83
Industrials	11.49
Consumer Discretionary	9.47
Health Care	9.14
Communication Services	8.42
Consumer Staples	4.29
Materials	3.36
Real Estate	2.96

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Apple Inc.	5.11
2. Adobe Inc.	4.85
3. Amazon.com Inc.	4.75
4. SAP SE ADR	4.30
5. Intuit Inc.	4.12
6. Berkshire Hathaway Inc. Class B	4.08
7. Alphabet Inc. Class C	4.04
8. Microsoft Corp.	3.72
9. Johnson & Johnson	3.66
10. Teleflex Inc.	3.57

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (11/01/2011)	Expense Ratios Net	Expense Ratios Gross
Harbor Strategic Growth Fund - *INST*	21.42%	9.60%	11.22%	N/A	13.74%	0.71%	0.80%
Russell 1000® Growth Index	27.84%	23.28%	15.89%	N/A	16.54%		

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 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 1000® Growth Index and Russell® are trademarks of Frank Russell Company.

The Standard & Poor's 500 Index is an unmanaged index generally representative of the U.S. stock market. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Since the Fund typically invests in a limited number of companies, an adverse event affecting a particular company may hurt the Fund's performance more than if it had invested in a larger number of 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, Mar Vista Investment 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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