



Harbor Capital Appreciation Fund



Spiros "Sig" Segalas



Kathleen A. McCarragher

3rd Quarter, 2018 Commentary

"We believe the Fund is well-positioned with companies whose growth prospects remain robust and well above-average, even with the heightened risk outlook." -Jennison Associates LLC

U.S. equities posted solid gains in the third quarter

U.S. equities posted solid gains in the third quarter of 2018, despite acrimonious trade disputes and escalating tariffs, as U.S. corporate earnings continued to benefit from lower taxes. In addition, economic activity accelerated, in part fueled by low unemployment and wage gains; U.S. Gross Domestic Product expanded 4.2% in the second quarter.

During the quarter, the S&P 500 Index returned 7.71%. The Harbor Capital Appreciation Fund returned 6.71%, underperforming its benchmark, the Russell 1000® Growth Index, a measure of larger, growth-oriented U.S. companies, which returned 9.17%. Stock selection in Information Technology detracted from relative performance, as did security selection in Consumer Discretionary. Conversely, an underweight position in Real Estate contributed to relative results. The Fund's sector weightings, however, are purely a residual outcome of the bottom-up stock selection process. Security selection in Energy also benefited relative performance.

Jennison Associates' comments were made in an October, 2018 report. Highlights adapted from the report appear below. All comments relate to the quarter ended September 30, 2018, unless otherwise indicated. All references to the year-to-date are for the period January 1 through September 30, 2018.

HIGHLIGHTS

Interest Rates Rose, and the U.S. Dollar Maintained Strength

Chinese equities fell sharply during the quarter, as the trade conflict with the U.S. deteriorated from a war of words to tariff implementation. Trade tensions in North America subsided with the apparent conclusion of a new U.S.-Mexico-Canada trade agreement immediately after the quarter ended. With continued U.S. economic expansion and historically low unemployment, the Federal Reserve raised the federal funds target rate range another 25 basis points, to 2.00%-2.25%. Interest rates across the yield curve also moved up. The U.S. Dollar maintained its relative strength against most major currencies.

U.S. Economic Activity Is Strong, and Unemployment Is Low

A near-term resolution of the trade conflict between the U.S. and China seems challenging, in our view, as both sides have staked out hard ideological positions. Up to now, the Chinese stock market has suffered the brunt of the pain, while the U.S. economy, dominated by the services sector, has felt little initial impact. However, if supply-chain tightness increases and tariffs mount, we believe headwinds to U.S. economic expansion could gather force and threaten a deceleration in economic growth heading into 2019. For now, economic activity is strong, and unemployment is low. The tight labor market suggests increased labor costs, which we believe would likely add impetus for higher interest rates.

The Market's Focus on Fundamentals Favored the Fund's Investment Approach

As fundamental, bottom-up investors, we examine company and industry prospects over the near and long-term. Numerous factors cause variability in the way equity markets price securities in the short-term. Such factors include company fundamentals, macroeconomic conditions and market risk tolerance. We constantly assess if and how these factors affect our investment thesis and company long-term value. We believe the market's focus on company fundamentals favored the Fund's investment approach during the quarter, although investor concerns about trade wars contributed to volatility in some holdings. China-based holdings were adversely affected by U.S.-China trade tensions; however, we believe the companies' underlying fundamentals remain attractive. By identifying fundamentally strong companies through our disciplined, research-intensive approach, we believe we have constructed a portfolio that is positioned to generate



Harbor Capital Appreciation Fund

above-average returns over the longer term. We believe the market will value such companies appropriately over the long-term, as it has historically.

Midterm Elections Are the Next Major Political Milestone in the U.S.

Midterm elections are the next major political milestone in the U.S., and polling suggests a new power dynamic in Congress after the votes are counted. In Europe, Brexit negotiations between the U.K. and the European Union remain contentious, compounding uncertainty about the final outcome, which has a March 2019 deadline.

We Believe the Fund Is Well-Positioned

We believe the Fund is well-positioned with companies whose growth prospects remain robust and well above-average, even with the heightened risk outlook. Although not immune to increasing trade tensions, the Fund, on balance, includes diversified growth opportunities across many different product and market segments with strong outlooks.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Gross
Harbor Capital Appreciation Fund - INST	6.71%	26.94%	20.03%	16.92%	14.65%	0.66%	0.71%
Russell 1000® Growth Index	9.17%	26.30%	20.55%	16.58%	14.31%		
S&P 500 Index	7.71%	17.91%	17.31%	13.95%	11.97%		

Sectors: As of 09/30/2018, the Harbor Capital Appreciation Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 51.20%; Consumer Discretionary, 20.56%; Health Care, 11.85%; Industrials, 6.28%; Financials, 4.04%; Consumer Staples, 3.46%; Energy, 1.16%; Materials, 0.99%; Real Estate, 0.39%;

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.

Performance figures discussed in any of the Manager Commentaries reflect that of the Institutional Class shares.

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 net expense ratios for this fund are subject to a contractual management fee waiver through 02/28/2019.

The Russell 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. The Standard & Poor's 500 Index is an unmanaged index generally representative of the U.S. stock market. These unmanaged indices do not reflect fees and expenses and are not available for direct investment. The Russell 1000® Growth Index and Russell® are trademarks of Frank Russell Company.

Since the Fund may hold foreign securities, it may be subject to greater risks than funds invested only in the U.S. These risks are more severe for securities of issuers in emerging market regions.

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.

The views expressed herein are those of the subadviser, Jennison Associates LLC, and may not be reflective of their current opinions or future actions. These views are not necessarily those of Harbor Funds and should not be construed as such.

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.

Harbor Funds is distributed by Harbor Funds Distributors, Inc.

HARBOR FUNDS and the Lighthouse Design are Reg. U.S. Pat. & Tm. Off.