



Subadviser: Income Research + Management (Since 06/01/2018)

Portfolio Managers: William A. O'Malley, CFA, James E. Gubitosi, CFA, Sarah M. Kilpatrick

4th Quarter, 2018

"Allocation shifts were made on the margin during the quarter, as we took advantage of outperformance by trimming tight-trading bonds."

Income Research + Management

Economic Overview

Geopolitical concerns, falling oil prices, and a continuation of tightening monetary policy pushed market volatility higher during the fourth quarter of 2018. Economic data remained solid, with fourth quarter Gross Domestic Product (GDP) estimates averaging around 2.7%, unemployment at 3.7%, and inflation hovering above the 2% target. At its December meeting, the Federal Reserve (Fed), as expected, raised the federal funds target range by another 0.25%. This marked the fourth rate increase in 2018 and the ninth since December 2015. The Treasury curve flattened as the rate hike put upward pressure on shorter maturities. The policy-sensitive two-year Treasury yield reached as high as 2.97%, surpassing the five-year yield for the first curve inversion of 2018. Meanwhile, oil prices, which fell from \$75 to \$45 a barrel, dragged down future inflation expectations and yields of longer maturities. As a result, the 10-year breakeven inflation rate fell over the quarter from 2.14% to 1.71%.

Portfolio Review

In the fourth quarter of 2018, the Harbor Core Bond Fund (Institutional Class) returned 1.29%, underperforming its benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, which returned 1.64%.

Relative underperformance was driven by the portfolio's underweight to Treasuries and overweight to corporate bonds, specifically in Financials and Industrials. Corporates underperformed Treasuries as credit spreads widened. Contributors to performance included the Fund's security selection within the Industrials sector and among collateralized mortgage-backed securities, as well as an out-of-benchmark allocation to bonds issued by the Small Business Association (SBAs). On a credit quality basis, the portfolio's underweight to AAA-rated securities and overweight to BBB-rated securities detracted from relative performance.

The largest contributors to portfolio performance during the fourth quarter were AbbVie Inc and Celgene Corporation. The largest detractors from portfolio performance included General Electric, Anheuser-Busch InBev, and Charter Communications.

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.



Harbor Core Bond Fund

Subadviser: Income Research + Management (Since 06/01/2018)
Portfolio Managers: William A. O'Malley, CFA, James E. Gubitosi, CFA, Sarah M. Kilpatrick

Manager Commentary

As of 12/31/2018

From the inception of the Fund in June through the end of the year, we took advantage of strong performance by trimming outperforming, tight-trading bonds in sectors such as banking and real estate investment trusts and deploying some of the proceeds into high-quality asset-backed securities (ABS) as well as SBAs and municipals. The portfolio's overweight to ABS, and selection among those securities, aided relative performance during the second half of the year. Similarly, the portfolio's out-of-index allocation to SBAs benefited relative results during the time period since inception.

Outlook

Overall, our views and themes were largely unchanged over the quarter. We do not forecast interest rates. Instead, we rely on our bottom-up selection skills to build a portfolio that is duration-neutral to its respective benchmark. Allocation shifts were made on the margin during the quarter, as we took advantage of outperformance by trimming tight-trading bonds. In addition, we began to deploy built-up liquidity into opportunities amid spread widening toward the end of the quarter.

Entering 2019, the spread between the 10-year Treasury yield and the two-year Treasury yield is at one of its lowest levels since 2007. The Fed continues to tighten monetary policy but lowered its forecast to two additional rate hikes in 2019. Current market expectations, however, are inconsistent with the Fed's estimate; the market is now pricing in zero rate hikes in 2019 and even a rate cut in 2020. The divergence in opinion between the Fed and market has created an environment of uncertainty for investors. At IR+M, we continue to believe that it is a good time to leverage our years of experience and security selection skills. Periods of uncertainty can lead to volatility, and we stand ready to opportunistically deploy our dry powder as volatility picks up.



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.



Harbor Core Bond Fund

Manager Commentary

As of 12/31/2018

Subadviser: Income Research + Management (Since 06/01/2018)

Portfolio Managers: William A. O'Malley, CFA, James E. Gubitosi, CFA, Sarah M. Kilpatrick

ECONOMIC SECTORS

	% of Net Assets
Corporate Bonds & Notes	30.17
U.S. Government Obligations	25.18
Mortgage Pass-Through	23.54
Asset-Backed Securities	10.73
Collateralized Mortgage Obligations	7.15
Municipal Bonds	1.95

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. U.S. Treasury Notes	5.23
2. U.S. Treasury Bonds	4.95
3. U.S. Treasury Bonds	4.12
4. U.S. Treasury Notes	4.11
5. Federal National Mortgage Association	2.21
6. Federal National Mortgage Association	2.12
7. Federal National Mortgage Association	1.88
8. Federal Home Loan Mortgage Corp.	1.74
9. Federal Home Loan Mortgage Corp.	1.67
10. Federal Home Loan Mortgage Corp.	1.61

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Abbvie Inc.	0.69
Celgene Corp.	0.69
Anheuser-Busch Cos. LLC / Anheuser-Busch	0.67
Charter Communications Operating LLC / C	0.67
General Electric Co. MTN	0.30

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (06/01/2018)	Expense Ratios	
						Net	Gross
Harbor Core Bond Fund - INST	1.29%	N/A	N/A	N/A	1.34%	0.45%	0.68%
Bloomberg Barclays U.S. Aggregate Bond Index	1.64%	N/A	N/A	N/A	1.53%		

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.

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 an expense limitation agreement, excluding interest expense, if any, through 02/29/2020.

The Bloomberg Barclays U.S. Aggregate Bond Index is an unmanaged index of investment-grade fixed-rate debt issues with maturities of at least one year. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Fixed income investments are affected by interest rate changes and the creditworthiness of the issues held by the Fund. As interest rates rise, the values of fixed income securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio.

Views expressed herein are drawn from commentary provided to Harbor by the subadviser, Income Research + Management, 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.

Harbor Funds is distributed by Harbor Funds Distributors, Inc.

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