4th Quarter, 2018

"Investor pessimism seemingly overlooked bright spots, which included resilient U.S. economic data."

Sands Capital Management, LLC

Economic Overview

The fourth quarter was the worst for global equities (as measured by the MSCI All Country World (ND) Index) since 2011. Many of the negative narratives that had weighed on investor sentiment persisted, including slowing global growth, the shift by central banks from quantitative easing to tightening, ongoing trade tensions, Brexit proceedings, and concerns about corporate margins and profitability in 2019. More than half of the MSCI ACWI index's country constituents suffered double-digit declines. Only one sector, Utilities, had a positive return in the index, and seven of the 11 sectors had double-digit losses. Investor pessimism seemingly overlooked bright spots, which included resilient U.S. economic data. U.S. consumers—who account for approximately 70% of Gross Domestic Product (GDP)—appeared well-positioned, with solid wage gains and unemployment at its lowest level in decades. This was in part confirmed by positive consumer spending reports during the quarter, along with early holiday retail sales data.

Portfolio Review

In the fourth quarter of 2018, the Harbor Global Leaders Fund (Institutional Class) returned -11.23%, outperforming its benchmark, the MSCI All Country World (ND) Index, which returned -12.75%.

Stock selection in Consumer Discretionary and Financials contributed to relative performance, as did a lack of exposure to the Energy sector. Health Care was the largest detractor from relative returns, due to both stock selection and an underweight. While stock selection on the whole was positive for the quarter, the Fund's sector allocations detracted from relative returns, largely because of a lack of exposure to Utilities and an underweight to Real Estate, which were the two best performing sectors in the benchmark. The Fund's sector weightings are purely a residual outcome of the bottom-up stock selection process.

U.S./Canada and Emerging Asia were the top regional contributors to relative investment results, both of which were largely driven by selection effect. Western Europe and Developed Asia were the largest detractors from relative investment results.

The largest contributors to relative investment results during the quarter included HDFC Bank, Starbucks, Don Quijote, AIA Group, and Allergan. HDFC Bank was a relative outperformer in a turbulent market environment for India and emerging markets during the fourth quarter, as it stood out in terms of its steady growth, operating efficiency and asset quality, which were reflected in its most recently reported results. Following the default of a prominent Indian financing business, investors looked to exit high-risk financials businesses. As a result, HDFC Bank benefited, due to its status as a relative safe haven for many domestic and foreign investors in Indian banks. Beyond the bank's relative stability within its industry, the company's growth is supported by what we believe is a secular shift within India's lending market; while state-owned banks have historically dominated the market, they are becoming increasingly burdened by impaired assets. We believe HDFC Bank's strong brand, extensive distribution network, business stability and experienced management team will drive continued success over the long-term.

The largest detractors from relative investment results during the quarter were Recruit Holdings, Fresenius Medical Care, Safran, Adobe, and Temenos. Temenos reported another solid set of quarterly results, but its share price declined amid the market sell-off of European growth stocks. Fundamentally, the company continued to deliver strong business momentum, underpinned by the strong growing secular tailwind of banks embracing digital transformations. We believe the banking industry's demand for core system transformation has reached critical mass, and is showing evidence of acceleration in an open-ended total addressable market. Meanwhile, Temenos's leadership and competitive position is strengthening, as it continues to drive the secular shift to digital within the banking industry and capture market share. The company's software licensing revenue, the most important indicator of underlying business strength, is outperforming our expectations and growing at healthy mid-20s rates. In addition, management raised full-year license revenue guidance range from mid-teens to 15 to 20 percent, based on its results in the first three quarters of the year, sales momentum, and increased visibility. Despite management's guidance increase, we believe they are conservative estimates. Finally, the company also pointed to progress in several earlier-stage growth areas, including the U.S., where it recently registered its strongest quarter, a tier 1 deal with an Australian bank, expansion into New Zealand, and a fourfold increase in cloud bookings this year, which should support an acceleration in software-as-a-service revenues in 2019.

We purchased AIA in October. AIA is the largest pan-Asia life insurance business, with strong market share positions in growing markets, including China, Hong Kong, Thailand, Singapore and Malaysia, where demand for high-quality insurance products is rising. Growth in these regions is being driven by a large, growing middle class; an aging population; rising per capita income; and favorable regulations and fiscal policies that incentivize consumers to purchase insurance products. We believe AIA has a distinct advantage as a premier and highly reputable brand with a long and solid operating track record. The company maintains a unique competitive advantage in being able to maintain 100% equity stakes in local subsidiaries, even in markets that no longer allow complete foreign ownership (e.g., China, one of the most lucrative markets in Asia). We believe this advantage has allowed the company to apply a consistent business strategy across all regions, which includes prudent underwriting of insurance products, hiring experienced and highly educated agents, a disciplined focus on traditional insurance products with meaningful protection, a conservative approach in managing its investment book, and maintaining strong capital and liquidity. Given AIA's reputable brand, its strong presence in growing markets, and its long-term business strategy, we believe the company will be able to grow above-average annualized earnings over our investment horizon.

We sold Fresenius Medical Care in December. Fresenius Medical Care is a leader in the oligopolistic kidney dialysis market. While there has been no change to the competitive or growth dynamics within the core dialysis business, and we think the long-term outlook for the business remains strong, management has misexecuted recently both in terms of its field-level management on the commercial side of its business (i.e. non-Medicare), and has pulled back from efforts into broader patient care coordination in adjacent verticals, such as the hospitalist market and urgent care clinics. In the dialysis business, a small percentage of commercially insured patients contribute disproportionately to profitability, given the margin differential from Medicare patients. Therefore, the misexecution on this relatively small customer base can have an outsized negative impact on the business, which is what happened in the second half of 2018. We believe management has addressed its issues, but it will likely take a few quarters to work through. When balanced with the opportunity set for the Global Leaders strategy, we believed it was better to exit rather than wait for the business to work through its misexecution issues.

Outlook

Given the long-term and business-focused nature of our investment approach, we typically avoid making calls on the direction of the market. Rather, we remain focused on the fundamental strengths and long-term growth prospects of our portfolio businesses, which are typically independent of macro events and/or conditions. We are optimistic about the growth prospects for our businesses. We believe they are well positioned to deliver strong business results and earnings growth over our five-year investment horizon.

Harbor Funds

Harbor Global Leaders Fund

Manager Commentary
As of 12/31/2018

Subadviser: Sands Capital Management, LLC *(Since 03/02/2017)*
Portfolio Manager: Sunil H. Thakor, CFA

ECONOMIC SECTORS

	% of Net Assets
Information Technology	25.54
Consumer Discretionary	23.31
Industrials	16.43
Financials	10.73
Health Care	7.21
Consumer Staples	6.28
Communication Services	5.53
Real Estate	1.92

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. VISA Inc.	4.88
2. Safran SA	4.51
3. Alimentation Couche-Tard Inc.	4.19
4. HDFC Bank Ltd. ADR	4.11
5. Recruit Holdings Co. Ltd.	3.83
6. TransDigm Group Inc.	3.76
7. Adobe Systems Inc.	3.73
8. Zoetis Inc.	3.65
9. Salesforce.com Inc.	3.61
10. Keyence Corp.	3.49

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Starbucks Corp.	3.10
Temenos Group AG	2.31
AIA Group Ltd.	2.21
Don Quijote Holdings Co. Ltd.	1.61
Allergan plc	0.00
Fresenius Medical Care AG & Co.	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (03/01/2009)	Expense Ratios Net	Expense Ratios Gross
Harbor Global Leaders Fund - *INST*	-11.23%	2.18%	6.35%	N/A	15.92%	0.90%	1.21%
MSCI All Country World (ND) Index	-12.75%	-9.41%	4.26%	N/A	11.79%		

TOP TEN COUNTRIES

Country	% of Net Assets
United States	54.06
Japan	8.92
France	8.29
Canada	4.19
India	4.11
Taiwan	2.94
China	2.93
Switzerland	2.31
Hong Kong	2.21
Mexico	2.08

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 02/28/2019.

The MSCI All Country World (ND) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

Investing in international and emerging markets poses special risks, including potentially greater price volatility due to social, political and economic factors, as well as currency exchange rate fluctuations. These risks are more severe for securities of issuers in emerging market regions.

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, Sands Capital Management, 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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