Harbor Large Cap Value Fund

Manager Commentary
As of 06/30/2019

Subadviser: Aristotle Capital Management, LLC *(Since 05/25/2012)*
Portfolio Managers: Howard Gleicher, CFA, Gregory D. Padilla, CFA

2nd Quarter, 2019

"The goal of our investment team is to focus on studying businesses, assessing their quality, and analyzing them with a long-term and global perspective."

Aristotle Capital Management, LLC

Market in Review

A myriad of events gathered headlines during the quarter including, but not limited to, geopolitical tensions (e.g., between Iran and the U.S. following attacks on oil tankers in the Persian Gulf), potential new tariffs on Mexican imports, the U.S. decision to place significant restrictions on Chinese telecommunications equipment maker Huawei, U.S.-China trade relations, and potential actions of the Federal Reserve. In terms of the U.S. and China, while the two countries had seemed to be closer to a trade deal in April, talks broke down abruptly in May, only to restart again in June. The Fed held rates steady during the quarter, although market expectations for rate cuts continue to increase. While being cognizant of macroeconomic and geopolitical events, the goal of our investment team is to focus on studying businesses, assessing their quality, and analyzing them with a long-term and global perspective. We believe such focus will best serve our clients over complete market cycles.

Portfolio Performance

In the second quarter of 2019, the Harbor Large Cap Value Fund (Institutional Class) posted a total return of 6.13%, outperforming both the 3.84% return of its benchmark, the Russell 1000® Value Index, and the 4.30% return of the S&P 500 Index.

The vast majority of the portfolio's outperformance relative to the Russell 1000® Value Index was the result of security selection. Stock selection was strongest in Information Technology and Health Care. An underweight in Energy also added to relative return. On the other hand, stock selection in Financials was the main detractor from relative return. Stock selection in Energy and underweights in Financials and Communication Services modestly detracted from relative performance (relative weights are the result of bottom-up security selection).

Contributors and Detractors

Conglomerate Sony, maker of the PlayStation video game console, reversed its previous quarter's declines to become the second quarter's top performer. Investors seemed to welcome management's message during the company's annual investor day, which highlighted progress toward the group's medium- and long-term strategic goals. In the past, Sony's segments tended to operate in silos, with little collaboration between divisions. Management has set to change this and to increase synergies between divisions. During the quarter, management provided current

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.

examples of ongoing collaboration between its games, music, and electronics divisions as examples of the strategic purpose of all units. In addition, Sony and Microsoft announced that they would "explore a strategic partnership" to develop cloud solutions for gaming streaming services, leveraging Microsoft Azure data center solutions. The partnership would also potentially involve cooperation in semiconductors and artificial intelligence.

Shares of oil field services company Halliburton were a main detractor in the quarter. The company's shares declined mainly due to external, short-term cyclical events. Weakening oil prices coupled with transportation disruptions in the Permian Basin of West Texas caused many exploration and production companies to rethink production schedules. Halliburton is certainly affected, in the short-term, by decreased production schedules in an area as important as West Texas; however, we consider the disruptions as temporary in nature, not affecting the long-term business value of the firm.

Buys and Sells

During the quarter, we purchased Tyson, one of the world's largest food companies and a recognized leader in protein. In our view, Tyson is an example of a business with quality characteristics that have improved over time. It holds the number one or two market share position in most of the categories in which it competes, led by chicken. It has an attractive valuation: we believe Tyson's current stock price is offered at a discount to the company's intrinsic value given our estimates for higher, and more stable, normalized operating margins and earnings. We have identified several compelling catalysts for Tyson, which we believe will cause its stock price to appreciate toward our estimate of intrinsic value within our three- to five-year investment horizon. These catalysts include further success branding previously commodity categories, resulting in higher ,and more stable, margins, and penetration of value-added pricing over the more commodity-like practices of the past.

We originally invested in AbbVie, the global biopharmaceutical company, in early 2013, following its spinoff from Abbott Laboratories. During our investment period, Humira proved to be an outstanding franchise, treating over one million patients and becoming one of the world's best-selling drugs by revenue. AbbVie has secured more than 100 patents to protect Humira's multiple indications (e.g., rheumatoid arthritis, colitis, Crohn's disease, psoriasis, etc.), while making progress with new drugs to offset its bio-similar competition. However, the company's penchant for large acquisitions, together with greater uncertainty regarding Humira's ex-U.S. franchise, leaves us wanting to learn more. As such, we decided to sell our investment in this company as we invest in a more compelling opportunity.

Harbor Funds

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ECONOMIC SECTORS

	% of Net Assets
Financials	19.89
Information Technology	18.00
Health Care	14.96
Industrials	12.14
Consumer Staples	9.11
Consumer Discretionary	6.96
Energy	5.17
Materials	4.81
Real Estate	3.10
Communication Services	2.15
Utilities	0.54

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Adobe Inc.	4.88
2. Microsoft Corp.	4.31
3. Danaher Corp.	3.74
4. PayPal Holdings Inc.	3.15
5. Bank of America Corp.	3.10
6. ANSYS Inc.	2.95
7. Coca-Cola Co.	2.75
8. Medtronic plc	2.71
9. Microchip Technology Inc.	2.71
10. Allegion plc	2.67

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Sony Corp. ADR	2.51
Tyson Foods Inc.	2.48
Halliburton Co.	1.19
AbbVie Inc.	0.00
Huawei Technologies Research & Developme	0.00
Abbott Laboratories	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/29/1987)	Expense Ratios Net	Expense Ratios Gross
Harbor Large Cap Value Fund - *INST*	6.13%	7.76%	10.10%	13.62%	10.05%	0.69%	0.73%
Russell 1000® Value Index	3.84%	8.46%	7.46%	13.19%	10.53%		

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

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. 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 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, Aristotle 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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