Harbor Mid Cap Growth Fund

Manager Commentary
As of 12/31/2018

Subadviser: Wellington Management Company LLP *(Since 09/20/2005)*
Portfolio Managers: Stephen C. Mortimer, Michael T. Carmen, CFA, Mario E. Abularach, CFA, CMT

4th Quarter, 2018

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Wellington Management Company LLP

Economic Overview

During the fourth quarter of 2018, U.S. mid-cap growth equities suffered their largest quarterly decline since 2011. Volatility was elevated, as markets contended with a confluence of moderating economic growth, tighter liquidity and monetary policy, trade uncertainty, swelling fiscal deficits and political turmoil. Despite rising corporate headwinds and a challenging macro environment, third-quarter corporate earnings were relatively solid. As expected, the Federal Reserve (the Fed) raised short-term interest rates by 25 basis points in December. Fed Chair Jerome Powell highlighted the sustained level of economic growth and robust labor market but acknowledged that signs of softening growth have emerged, creating significant uncertainty about the course of monetary policy in 2019. He also noted that the central bank will maintain its balance sheet reduction plan. On the political front, the Democrats regained control of the House of Representatives, while the Republicans expanded their majority in the Senate. Defense Secretary James Mattis resigned following President Donald Trump's decision to withdraw troops from Syria and Afghanistan.

Portfolio Review

During the fourth quarter, the Harbor Mid Cap Growth Fund returned -18.59%, underperforming its benchmark, the Russell Midcap® Growth Index, which returned -15.99%.

Relative underperformance was driven primarily by unfavorable security selection. In particular, stock selection in Consumer Discretionary hindered relative results, as did security selection in Communication Services. In contrast, stock selection in Financials benefited relative performance. In Industrials, an underweight position and security selection contributed to relative results. Sector weights are a residual outcome of the bottom-up stock selection process.

Individual detractors from relative performance during the quarter included Spotify Technology SA, a streaming music provider. The company's shares were hit by the "risk-off" environment as investors rotated out of strongly performing growth stocks and into more defensive names during the quarter's volatility. Spotify announced solid third-quarter results at the beginning of November, with subscriber additions, revenue and gross margins all above, or in line with, consensus expectations. However, management slightly lowered fourth-quarter guidance on the basis of ramping investment in 2019 and upcoming contract renegotiations, and the stock declined in response. We have high conviction that the company can exceed market expectations longer term as the ad-supported business scales, the economics of the marketplace continue to develop, and the customer experience continues to improve.

Conversely, Workday, Inc., a software-as-a-service provider for finance and human resources, contributed to relative performance. The company delivered strong third-quarter results at the end of November, reporting upside to all major metrics. Workday displayed accelerated new business signings across its product platform, strong growth in its international and financials segments, and a significant increase in subscription revenue. Additionally, guidance was increased meaningfully, and the stock rallied as a result. We continue to have a high conviction in Workday, as its management team has continued to impress us.

At the beginning of 2018, the Fund’s largest overweights relative to the Russell Midcap® Growth Index were Information Technology and Consumer Discretionary, while the largest underweight was Materials. Sector positioning is an indication of where we are finding our most compelling investment ideas. During the year, we increased our relative exposure to Health Care the most. In contrast, we meaningfully reduced our active weight in Industrials, as well as in Information Technology, which moved from an overweight to an underweight.

Many of the changes to Fund positioning are idiosyncratic in nature and not driven by specific themes. Recently, we have been using the heightened market volatility to try to “upgrade” the quality of the Fund’s portfolio, and we have been adding to high-conviction holdings that we think are overly discounting a negative scenario. We are particularly focused on companies we believe can succeed in an environment of slower economic growth. We have been eliminating companies that are reliant on cyclical growth to perform well.

During the fourth quarter, we initiated a position in Square, Inc., a payments and credit card processing company, which quickly made a positive impact as one of the largest contributors to relative performance for the quarter. We believe Square’s strong product offering can continue to lead to healthy adoption of its products, particularly in the e-commerce space.

We eliminated our position in Baxter International, Inc., a health care equipment provider focused primarily on renal care, hemophilia and immune disorders. We reduced our estimates for Baxter, as slowing growth we once viewed as temporary due to hurricane-related supply constraints in the U.S. seems to be more structural in nature. Our differentiation versus consensus expectations narrowed, and we saw less upside potential for earnings.

Outlook

We are less optimistic on the outlook for the coming year than we were at the start of 2018. We became incrementally more cautious on global markets during the fourth quarter. In our view, the recent trade rhetoric between the U.S. and China has caused a further deceleration in global growth and is starting to have a material impact on U.S. companies. Near-term, we believe the recent market volatility is likely to continue, but we do not view a recession as inevitable. We acknowledge, however, that a recession is a possibility.

Harbor Funds

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ECONOMIC SECTORS

	% of Net Assets
Information Technology	28.87
Health Care	23.92
Consumer Discretionary	16.06
Industrials	9.11
Communication Services	6.98
Consumer Staples	5.12
Financials	2.75
Materials	1.93
Energy	1.32

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Workday Inc.	4.52
2. Servicenow Inc.	3.64
3. Align Technology Inc.	3.33
4. Exact Sciences Corp.	3.31
5. Guidewire Software Inc.	3.15
6. CoStar Group Inc.	3.13
7. Monster Beverage Corp.	2.97
8. Haemonetics Corp.	2.78
9. TD Ameritrade Holding Corp.	2.75
10. DexCom Inc.	2.68

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
Spotify Technology	2.67
Square Inc.	1.08
Baxter International, Inc.	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (11/01/2000)	Expense Ratios Net	Expense Ratios Gross
Harbor Mid Cap Growth Fund - *INST*	-18.59%	-1.69%	7.11%	13.08%	4.35%	0.89%	0.89%
Russell Midcap® Growth Index	-15.99%	-4.75%	7.42%	15.12%	5.12%		

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.

Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses.

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

Stocks of mid cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established 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 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, Wellington Management Company LLP, 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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