Harbor Small Cap Growth Fund

Manager Commentary
As of 12/31/2018

Subadviser: Westfield Capital Management Company, L.P. *(Since 11/01/2000)*
Portfolio Managers: William A. Muggia, Richard D Lee, CFA, Ethan J. Meyers, CFA, John M. Montgomery

4th Quarter, 2018

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Westfield Capital Management Company, L.P.

Economic Overview

While the blame for the turn in markets in the fourth quarter can likely be pinned on concerns regarding the Fed tightening too quickly given weakening underlying fundamentals, the broadening impact of trade rhetoric, domestic political gridlock, and the U.S.'s waning resilience to slowing global growth cannot be overlooked. In a few short months, expectations for monetary policy shifted dramatically as worries about an overheating economy and runaway inflation gave way to very real concerns about a breakdown in the domestic growth story. Volatility reemerged in the fourth quarter with a vengeance as large intraday moves exacerbated by systematic trading became the norm. In a reversal of leadership from the start of the year, investors flocked to the perceived safety of Consumer Staples, Utilities, and real estate investment trusts (REITs) during the quarter in the hopes of limiting their exposure to losses experienced in more growth-oriented and cyclical pockets of the market.

Portfolio Review

The Harbor Small Cap Growth Fund returned -23.07% during the fourth quarter of 2018, underperforming its benchmark, the Russell 2000® Growth Index, which returned -21.65%.

Relative strength in Information Technology and Materials was offset by weakness within Consumer Discretionary and Energy. Amid the sell-off during the quarter, defensive groups such as Utilities, REITs, and Consumer Staples provided relative safety. Given our focus on growth companies trading at reasonable valuations, these are areas of the market that we have little to no exposure. Importantly, outside of a recession scenario, we believe their continued leadership is unlikely. It is important to note that the Fund's sector weightings are a residual outcome of our bottom-up stock selection process.

Within Information Technology, data analytics provider Tableau Software was the largest contributor to relative returns during the quarter. Amid the fourth quarter sell-off in small-cap software, Tableau revealed higher revenue expectations than most investors anticipated. We maintain a favorable view of their current model transition and upcoming new product cycle, which we believe could drive upside to current expectations.

Conversely, exploration and production (E&P) company WPX Energy was among the portfolio's largest relative underperformers for the quarter. The company struggled as the price of oil fell from $75 per barrel to $45, gasoline margins remained razor thin, and global demand fears percolated. However, we continue to like the investment for financial and strategic reasons that are within the company's control. We believe WPX has attractive assets with a strong management team, and the profitable Bakken exposure is funding growth in the Permian Basin while also deleveraging their balance sheet. As exposure in the Permian increases and deleveraging progresses, we expect the stock to be valued similarly to other high-quality E&Ps.

The Fund began the quarter with a sizable overweight to the Materials sector that was reduced markedly during the quarter. Given the market backdrop, we are less encouraged with the outlook for the sector and used some of the proceeds to add to domestic-oriented investments with more favorable risk/reward profiles. We are currently modestly overweight the sector, with investments concentrated in containers and packaging and construction materials.

We added Monolithic Power Systems to the Fund during the quarter. Monolithic designs, develops and markets advanced analog and mixed-signal semiconductors. The company is a strong secular grower, consistently growing faster than the industry over the last several years. Although valuation had been a challenge, we used the recent pullback on cycle fears as an attractive entry point.

Consumer Discretionary and Consumer Staples were our greatest underweights relative to the index at the end of the quarter, with the Harbor Small Cap Growth Fund having zero weight in Consumer Staples. The Consumer Staples sector was the Fund's greatest underweight relative to the index entering the year, and our exposure was relatively unchanged during the year. Secular growth is a rarity in the Consumer Staples sector, a segment favored by investors seeking stable cash flows and high dividends. As a result, few Consumer Staples companies meet our growth at a reasonable price investment approach, leaving the portfolio with an underweight in the sector.

One position we eliminated during the fourth quarter was Frontdoor, Inc., which engages in the provision of home service plans and offers homeowners a platform when they require assistance with technical home repair issues. The catalysts for the sale were a lost faith in management and their business model. Frontdoor reiterated full year guidance two weeks before spinning as a public company. Subsequently, management reset margin expectations materially due to a number of factors, including wage pressure, increasing claims and higher replacement parts costs. We sold the position on this news as we think that their ability to push through price increases could result in customers looking for warranty plans elsewhere, which could lower revenue growth going forward.

Outlook

The market as a discounting mechanism suggests a recession is likely upon us, but we have a more constructive outlook as we head into 2019. The sentiment pendulum has swung from one extreme to the other, from ebullience to distress, suggesting a reversal is near if it has not already begun. Bottoms take time, and we are not proclaiming an all-clear sign, but there is a lot to be positive about after a reset in expectations. In a few short weeks, a lot of opportunity has been revealed in the market. The hurdle for earnings is now lower following reductions in the wake of the fear. Valuations are attractive in absolute terms, but even better-looking considering the current rate environment.

We believe certain pockets of the market maintain excellent growth prospects, and recent price action has created entry points in areas where we have traditionally found growth such as Health Care and Information Technology. In this type of environment, we think that conservatively capitalized businesses with diversified revenue streams and pricing power will ultimately be sought after. We further believe that growth will become scarce, and the earnings multiples of true organic growers will reflect that reality. Of all the environments to invest, this is one in which we believe our growth approach with a valuation bias should be rewarded.

Harbor Funds

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ECONOMIC SECTORS

	% of Net Assets
Health Care	28.42
Information Technology	24.50
Industrials	15.64
Consumer Discretionary	9.10
Financials	7.14
Materials	5.05
Energy	4.25
Communication Services	3.30
Real Estate	1.15

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Icon plc	2.81
2. Madison Square Garden Co.	2.50
3. Ultimate Software Group Inc.	2.46
4. BIO-RAD Laboratories Inc.	2.32
5. Berry Global Group Inc.	2.20
6. Teledyne Technologies Inc.	2.18
7. Tableau Software Inc.	2.16
8. Ascendis Pharma A/S ADR	2.13
9. Integra LifeSciences Holdings Corp.	2.09
10. Interxion Holding NV	2.04

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
WPX Energy Inc.	1.81
Monolithic Power Systems Inc.	1.50
Frontdoor, 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 Small Cap Growth Fund - *INST*	-23.07%	-10.74%	4.77%	13.55%	7.75%	0.87%	0.87%
Russell 2000® Growth Index	-21.65%	-9.31%	5.13%	13.52%	5.35%		

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 2000® Growth Index is an unmanaged index representing the smallest 2000 stocks with the highest price-to-book ratio and future earnings. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 2000® Growth Index and Russell® are trademarks of Frank Russell Company.

Stocks of small cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established 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, Westfield Capital Management Company, L.P., 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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