



4th Quarter, 2018

"We continue to position the portfolio based on the underlying fundamentals of individual companies and the growth prospects relative to what is currently reflected in the stock price."

EARNEST Partners LLC

Economic Overview

During the quarter, equity markets suffered in the wake of uncertainty surrounding trade policy, global growth, and central banks' posture towards monetary policy. Investors continued to monitor the U.S. Federal Reserve (Fed) during the quarter in anticipation of rate changes and the Central Bank's stance under Chairman Jerome Powell. In December, the Fed again unanimously voted to raise short-term interest rates by another 0.25% to the range of 2.25% to 2.50%, the ninth rate increase since the Fed began raising rates in 2015, and the fourth one this year. In its statement, Fed officials noted that they expect to have two more rate hikes in 2019 versus earlier statements, which called for three next year.

Portfolio Review

In the 4th quarter of 2018, the Harbor Small Cap Value Fund (Institutional Class) returned -19.53%, underperforming its benchmark, the Russell 2000® Value Index, which returned -18.67%.

During the quarter, Utilities and Consumer Staples were the best performing sectors in the Russell 2000® Value Index as investors flocked to defensive sectors and those yielding high dividend income. This trend proved to be a headwind given the Fund's limited exposure to defensive sectors.

Stock selection in aggregate was negative during the quarter, driven by relative weakness from the Fund's Energy holdings. Sector allocation, which is purely a residual outcome of the bottom-up stock selection process, further weighed on relative returns, due largely to an underweight position in Utilities, the best performing sector in the benchmark. Balancing the negative factors mentioned above, the Fund benefitted from positive stock selection across multiple sectors during the quarter, most notably Real Estate, Information Technology and Consumer Discretionary.

Financials position Eaton Vance—one of the oldest investment management firms headquartered in the U.S.—was a leading detractor during the quarter. Disappointing news in bank regulatory reform caused headwinds for the financial sector as a whole, triggering a broad decline for financial companies' stocks. Despite experiencing slight outflows in some business segments, fiscal 2018 was still a record year for Eaton Vance, which reported a 29% increase in earnings-per-share year-over-year. We view wavering investor sentiment and recent outflows from equity

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 Small Cap Value Fund

Subadviser: EARNEST Partners LLC (Since 12/14/2001)
Portfolio Manager: Paul E. Viera

Manager Commentary

As of 12/31/2018

funds as cyclical and not an indicator of long-term market conditions. Further, given the firm's success in growing both its higher-fee, actively managed strategies and lower-fee, passive business segments, we believe Eaton Vance is well positioned for continued margin improvement and earnings growth moving forward.

On the positive side, Information Technology holding OSI Systems was a top contributor. Based in California, the company develops and markets specialized electronic systems and components such as airport security X-ray machines and metal detectors, medical monitoring and anesthesia systems, and optoelectronic devices. During the quarter, OSI's book-to-bill ratio (the ratio of new orders to completed sales) improved due to a growing backlog, which we believe could bode well for future earnings. Even though the stock price declined in the fourth quarter, management raised guidance to reflect updated expectations for sales and earnings-per-share, which helped the stock outperform its peers.

The Industrials and Information Technology sectors were our greatest overweights relative to the index at the end of the quarter. We maintain a healthy overweight in these sectors as we continue to find more attractive individual stock opportunities compared to other areas of the market.

We added Triumph Group to the Fund's Industrials holdings during the quarter. Triumph Group designs, engineers, manufactures, repairs and distributes aircraft components worldwide and serves original equipment manufacturers of commercial, regional, business and military aircraft, as well as commercial and regional airlines. We believe the difficulties that led to earnings contraction in recent quarters are mostly behind the company and that Triumph is poised to deliver positive earnings growth in excess of consensus, which could lead to stock price appreciation over our investment horizon.

Similar to last quarter, the Real Estate and Consumer Discretionary sectors were our greatest underweights relative to the index at the end of the quarter. Additionally, we eliminated a position in the Health Care sector during the quarter. Cantel Medical, a provider of infection prevention and control products as well as services for the health care market, was sold as a risk management measure.

Outlook

While we do not place much emphasis on a formal market outlook, we are optimistic about the prospects of individual opportunities in the Fund over a full market cycle. In 2019, we will continue to position the portfolio based on underlying fundamentals of individual companies and their growth prospects relative to what is currently reflected in the stock price.

Harbor Funds 

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ECONOMIC SECTORS

	% of Net Assets
Industrials	28.33
Financials	23.74
Information Technology	21.34
Health Care	5.32
Real Estate	5.03
Consumer Discretionary	3.66
Energy	3.49
Consumer Staples	2.73
Materials	2.66
Utilities	1.34

TOP TEN HOLDINGS

Company Name	% of Net Assets
1. Hexcel Corp.	3.36
2. Teledyne Technologies Inc.	3.04
3. Firstcash Inc.	2.83
4. EnerSys	2.64
5. Reinsurance Group of America Inc.	2.57
6. Cabot Microelectronics Corp.	2.54
7. Darling Ingredients Inc.	2.34
8. Littelfuse Inc.	2.25
9. Franklin Electric Co. Inc.	2.21
10. Albany International Corp.	2.20

ADDITIONAL HOLDINGS

Company Name	% of Net Assets
OSI Systems Inc.	2.14
Eaton Vance Corp.	0.93
Triumph Group Inc.	0.86
Cantel Medical Corp.	0.00

TOTAL RETURNS

	Three Months	1 Yr.	5 Yr.	10 Yr.	Since Incp. (12/14/2001)	Expense Ratios	
						Net	Gross
Harbor Small Cap Value Fund - INST	-19.53%	-15.97%	5.57%	11.97%	9.35%	0.88%	0.88%
Russell 2000® Value Index	-18.67%	-12.86%	3.61%	10.40%	7.95%		

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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 Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses.

The Russell 2000® Value Index is an unmanaged index representing the smallest 2000 stocks with the lowest 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® Value 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 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, EARNEST Partners 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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