



Harbor Diversified International All Cap Fund

3rd Quarter, 2018 Commentary

Neil M. Ostrer

William J. Arah

Charles Carter

Nick Longhurst

Michael Godfrey, CFA

David Cull, CFA

Robert Anstey, CFA

Simon Somerville

Michael Nickson, CFA

Simon Todd, CFA

"The near-term growth outlook remains positive, and companies have continued to exceed market expectations." - Marathon Asset Management LLP (Marathon-London)

International equity markets were flat overall during the third quarter

The developing trade war between the U.S. and China, growing evidence of European economic weakness and ongoing U.K. Brexit negotiations with the European Union collectively weighed on global equity market performance toward the end of the third quarter of 2018. This performance offset a relatively strong start to the quarter, particularly across many developed international markets, following strong corporate earnings results. Japan was a relative bright spot in U.S. Dollar terms, largely due to Japanese Yen weakness. Emerging markets generally declined during the quarter, as they have during most of the year-to-date period, with U.S. Dollar appreciation, trade disputes and geopolitical risks in markets like Brazil and Turkey weighing on sentiment.

During the quarter, non-U.S. equities, as measured by the Fund's benchmark, the MSCI All Country World Ex. U.S. (ND) Index, had a return of 0.71%. The Harbor Diversified International All Cap Fund performed in line with its benchmark, with a quarterly return of 0.71%. An underweight position in China benefited relative performance, as did stock selection in some European countries, including Italy and Germany. Conversely, the U.K. hindered relative results, due to security selection and an overweight position. From a sector perspective, stock selection in Information Technology contributed to relative performance, while security selection in Consumer Staples detracted.

Marathon-London's comments were made in an October, 2018 report. Highlights adapted from the report appear below. All comments relate to the quarter ended September 30, 2018, unless otherwise indicated. All references to the year-to-date are for the period January 1 through September 30, 2018.

HIGHLIGHTS

International Equity Markets Look Reasonably Valued

After some relative weakness during the third quarter of 2018 and year-to-date, international equity markets look reasonably valued to us, as the near-term growth outlook remains positive and companies have continued to exceed market expectations. There remain, however, geopolitical risks in Europe, while the U.S.-initiated trade dispute is becoming increasingly unsettling for both developed and developing international equity markets.

European Corporate Balance Sheets Are Generally Strong

European equity markets have recently underperformed global markets due to fears of an economic slowdown, trade wars and the effects of Brexit. We believe European equity markets are reasonably priced compared to other global equity markets, while the earnings growth outlook remains positive and corporate balance sheets are generally strong.

Progress on Governance Remains Impressive in Japan

In Japan, we believe signs that long-term Japanese government bond yields may break higher could trigger two strong reversals to help overturn Japan's deflationary sentiment. We believe these reversals could be 1) a multi-decade asset allocation shift from risk and equity into fixed income assets and cash; and 2) a move toward clear domestic leadership of the equity market, focused on interest rate-sensitive securities and governance. Progress on governance remains impressive, in our view, and, while political uncertainty may increase going forward, signs of meaningful change in a broad range of related areas are structurally rooted in social and generational change.



Harbor Diversified International All Cap Fund

Slowing Economic Growth in Emerging Markets Is an Opportunity

In emerging markets, slowing economic growth is an opportunity for companies to reassess their capital allocation policies, as well as the market structures in which they operate. We believe improvements in profitability and cash generation can more than make up for slowing economic growth. As always, we believe emerging market investors should continue to be disciplined with regard to valuation.

Resolution of Trade Agreements A Positive Outcome for Canadian Companies

The Canadian economy had been boosted by higher oil prices and has benefited from U.S. economic strength. We believe the resolution of trade agreements with the U.S. is a positive outcome for Canadian companies. Canadian households, however, are much more indebted than their U.S. counterparts; therefore, the country's central bank faces a careful balancing act. Some trends seen in U.S. equity markets have also been apparent in Canada, with some growth stocks highly valued, particularly as there is something of a scarcity factor for Canadian investors. The exuberance about the cannabis market, however, indicates to us that some investors are reaching too far for return. The Fund's holdings tend to be more global in nature and in more defensive business models.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Since Inception (11/02/2015)	Expense Ratios Net	Gross
Harbor Diversified International All Cap Fund - INST	0.71%	1.26%	N/A	N/A	6.12%	0.80%	0.93%
MSCI All Country World Ex. US (ND) Index	0.71%	1.76%	N/A	N/A	7.60%		

Sectors: As of 09/30/2018, the Harbor Diversified International All Cap Fund had invested the following percentages of its assets in the sectors listed: Industrials, 21.38%; Financials, 18.26%; Consumer Discretionary, 16.10%; Consumer Staples, 11.36%; Information Technology, 9.54%; Health Care, 7.66%; Materials, 6.47%; Energy, 3.59%; Telecommunication Services, 3.25%; Real Estate, 0.76%; Utilities, 0.34%;

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.

Performance figures discussed in any of the Manager Commentaries reflect that of the Institutional Class shares.

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 net expense ratios for this fund are subject to an expense limitation agreement, excluding interest expense, if any, through 02/29/2020.

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

The subadviser's assessment of the capital cycle for a particular industry or company may be incorrect. Investing in companies at inopportune phases of the capital cycle can result in the Fund purchasing company stock at pricing levels that are higher than the market dynamics would support and therefore subject the Fund to greater risk that the stock price would decline rather than increase over time.

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.

Stocks of small and mid cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

Stock markets are volatile and equity values can decline significantly in response to adverse issuer, political, regulatory, market and economic conditions.

The views expressed herein are those of the subadviser, Marathon Asset Management LLP, and may not be reflective of their current opinions or future actions. These views are not necessarily those of Harbor Funds and should not be construed as such.



Harbor Diversified International All Cap Fund

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.

Harbor Funds is distributed by Harbor Funds Distributors, Inc.

HARBOR FUNDS and the Lighthouse Design are Reg. U.S. Pat. & Tm. Off.