



Harbor Emerging Markets Equity Fund



Frank J. Carroll



Timothy D. Jensen

3rd Quarter, 2018 Commentary

"It is important that we stick to our bottom-up discipline and be certain that each name in the portfolio is performing in line with our expectations. Based on that vigorous, bottom-up research, we remain constructive going forward." -Oaktree Capital Management, L.P.

Fund advances, outperforms despite emerging market difficulties

Amid an escalating trade conflict between the United States and China and continued U.S. monetary policy tightening, emerging market equities declined during the third quarter of 2018 and underperformed developed markets, which broadly advanced. Within the Fund's benchmark, the MSCI Emerging Markets (ND) Index, Chinese equities performed poorly following several rounds of U.S. trade tariffs. Elsewhere, stocks in countries dependent on capital inflows due to current account deficits, such as Turkey and India, declined. Equities based in markets with current account surplus, including Thailand and Taiwan, advanced. On a sector basis, Consumer Discretionary and Health Care posted the largest declines, while Energy advanced sharply amid rising oil prices.

Against this backdrop, the Harbor Emerging Markets Equity Fund advanced 1.47% during the quarter, outperforming its benchmark, the MSCI Emerging Markets Index (ND), which returned -1.09%.

Stock selection in China was the largest driver of relative outperformance for the quarter. Stock choices and above-benchmark exposure to Brazil, which advanced in the benchmark, also bolstered relative returns. India contributed, driven largely by security selection. Conversely, stock selection and above-benchmark exposure in Greece, one of the benchmark's weakest markets during the quarter, detracted from relative performance. An underweight to Thailand also weighed on relative returns. From a sector perspective, stock selection and a favorable underweight to Information Technology was a key driver of outperformance. Overweight exposure and stock choices in Energy had a positive impact. Within Industrials, stocks held outperformed those in the benchmark. The Fund's sector and market weightings, however, are purely a residual outcome of the bottom-up stock selection process.

Oaktree Capital Management'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

A Good Time to Be Value Investors

In emerging markets, value stocks outperformed growth stocks during the third quarter of 2018. We are more exposed to value names, which helped generate strong relative performance, just as it did during the first quarter of the year. While the second quarter was a different story, we now believe we are in the early stages of a strong value cycle.

Higher Exposure to Energy, Financials and Materials

Entering the third quarter, our portfolio was overweight Energy, Financials and Materials, and underweight Information Technology, Telecommunication Services and Health Care. While our sector weightings did not change materially over the quarter, we further increased our three largest overweights. We reduced our exposure to Consumer Discretionary and increased our exposure to Consumer Staples and Health Care. The Fund's sector and market weightings are purely a residual outcome of our bottom-up stock selection process.



Harbor Emerging Markets Equity Fund

Quality Stocks in Any Environment

Since reaching highs in January, 2018, we have witnessed a rough stretch for emerging market stocks, marked by significant global uncertainty. At Oaktree Capital Management, we don't spend a lot of time forecasting larger themes or trends. Rather, our main focus is to follow our bottom-up process to find good quality names, no matter the country or sector, which we believe will perform well over the long-term. It is important that we stick to our bottom-up discipline and be certain that each name in the portfolio is performing in line with our expectations. Based on that vigorous, bottom-up research, we remain constructive going forward.

Total Returns

As of 09/30/2018

| | Three Months | One Year | Three Years | Five Years | Since Inception (11/01/2013) | Expense Ratios Net | Gross |
|---|--------------|----------|-------------|------------|---------------------------------|-----------------------|-------|
| Harbor Emerging Markets Equity Fund - INST | 1.47% | -0.74% | 13.20% | N/A | 1.47% | 1.15% | 1.43% |
| MSCI Emerging Markets (ND) Index | -1.09% | -0.81% | 12.36% | N/A | 2.68% | | |

Sectors: As of 09/30/2018, the Harbor Emerging Markets Equity Fund had invested the following percentages of its assets in the sectors listed: Financials, 26.09%; Information Technology, 21.63%; Energy, 13.74%; Materials, 9.82%; Consumer Discretionary, 9.76%; Consumer Staples, 7.88%; Industrials, 3.77%; Real Estate, 2.08%; Utilities, 1.75%; Health Care, 1.42%; Telecommunication Services, 0.12%;

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.

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 02/28/2019.

The MSCI Emerging Markets (ND) Index is a market capitalization weighted index of equity securities in more than 20 emerging market economies. This unmanaged index does not reflect fees and expenses and is not available for direct investment.

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.

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.

The views expressed herein are those of the subadviser, Oaktree Capital Management, L.P., 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.

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.