



# Harbor Global Leaders Fund



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## 3rd Quarter, 2018 Commentary

*"While the Fund benefited from a supportive macro backdrop during the quarter, we believe its strong absolute and relative investment results were driven primarily by the solid earnings and progress updates of the businesses within the portfolio." - Sands Capital Management, LLC*

### **Fund outperforms as developed and emerging market divergence continues**

Global equity markets (as measured by the MSCI All Country World (ND) Index) rose in the third quarter of 2018. U.S. equities were attributable for nearly all of the index's rise during the period, overwhelming continued emerging market weakness. Strong economic data and corporate earnings—U.S. companies reported the eighth consecutive quarter of earnings growth across all S&P 500 sectors—propelled broad U.S. equity indexes to multiple all-time highs.

At the same time, emerging markets officially entered a bear market, as the MSCI Emerging Markets (ND) Index, which returned -1.09% for the quarter, was down more than 20 percent from its January peak. Sentiment weighed heavily on emerging markets with concerns ranging from slowing regional growth to trade pressures and a stronger U.S. Dollar. Emerging Asia was the largest regional detractor from global equity returns, dragged down primarily by China.

The Harbor Global Leaders Fund advanced in the third quarter, returning 6.47%. The Fund outperformed its benchmark, the MSCI All Country World (ND) Index, which advanced 4.28%. The majority of sectors contributed to relative results, led by Industrials, along with substantial contributions from Consumer Staples and Information Technology, all driven largely by favorable stock selection. Conversely, stock choices in Health Care and Financials weighed on relative performance. An underweight to Health Care, the best performing sector in the benchmark for the quarter, also held back relative returns. From an individual market perspective, security selection made Japan and the United States the largest contributors, followed closely by France. In contrast, India, Hong Kong and Spain were notable detractors, primarily due to stock selection. The Fund's sector and country allocations, however, are purely a residual outcome of the bottom-up stock selection process.

Sands Capital Management's comments were presented 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**

#### **Strength in U.S. Outweighs Emerging Market Issues**

The positive environment in the U.S. and other developed countries, where more than 85% of our positions are domiciled, provided a favorable backdrop for the Fund. The environment in the U.S. was particularly positive as strong profit growth, accelerating economic growth, increasing business confidence and record low unemployment combined to propel equities higher. The quarter marked an unprecedented eighth consecutive quarter of year-over-year Gross Domestic Product (GDP) acceleration. Initial jobless claims in the U.S. reached their lowest level since the 1960s, while consumer confidence data hit an 18-year high. Manufacturing and services growth was also strong.

#### **Focus Is on Long-Term, and Fundamentals**

While the Fund benefited from a supportive macro backdrop during the quarter, we believe its strong absolute and relative investment results were driven primarily by solid earnings and progress updates of the businesses within the portfolio. Macro events may influence share prices in the short-term, but we believe business fundamentals will remain the most important driver of investment results over the long-term.



# Harbor Global Leaders Fund

## Confident in Growth Potential

Given the long-term and business-focused nature of our investment approach, we typically avoid making calls on the direction of the market. Rather, we remain focused on the fundamental strengths and long-term growth prospects of our portfolio businesses, which are typically independent of macro events and/or conditions. We are optimistic about the growth prospects for our businesses. We believe they are well positioned to deliver strong business results and earnings growth over our five-year investment horizon.

## Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Since Inception (03/01/2009)	Expense Ratios Net	Expense Ratios Gross
<b>Harbor Global Leaders Fund - INST</b>	6.47%	21.93%	15.65%	11.28%	17.82%	0.90%	1.21%
MSCI All Country World (ND) Index	4.28%	9.77%	13.40%	8.67%	13.72%		

**Sectors:** As of 09/30/2018, the Harbor Global Leaders Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 31.84%; Consumer Discretionary, 22.40%; Industrials, 18.35%; Health Care, 9.57%; Financials, 7.44%; Consumer Staples, 6.43%; Real Estate, 1.46%;

**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 All Country World (ND) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. 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.

Since the Fund typically invests in a limited number of companies, an adverse event affecting a particular company may hurt the Fund's performance more than if it had invested in a larger number of 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.

The views expressed herein are those of the subadviser, Sands Capital Management, LLC, 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.**

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