Harbor High-Yield Opportunities Fund


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3rd Quarter, 2018 Commentary

"We maintain a constructive outlook on below investment grade corporate credit." -Crescent Capital Group LP

High yield continues to outperform other fixed income markets

Key themes in the market during the third quarter of 2018 included escalating U.S.–China trade tensions and rising U.S. Treasury yields and narrowing spreads, offset by strong U.S. economic reports and healthy corporate earnings. The yield on the 10-year Treasury note broke through its previous resistance level and ended the quarter at 3.06%, up 20 basis points from the end of the second quarter. Crude oil prices declined slightly from the end of the second quarter, ending September at $73.25, 21% higher than at the start of the year. The Federal Reserve (Fed) continued its monetary policy tightening by passing another 25-basis-point rate increase at its September meeting while suggesting a total of four rate hikes in 2018. Nevertheless, the third quarter was a constructive period for the U.S. high yield bond market, which was one of the best performing asset classes in the fixed income market.

The Harbor High-Yield Opportunities Fund returned 2.23% during the quarter, underperforming the Fund's benchmark, the ICE BofAML US High Yield Index (H0A0), which returned 2.44%.

Crescent Capital Group'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

Portfolio Changes During the Quarter

We maintained the Fund's shorter duration position versus its benchmark index as we believe the short end of the interest rate curve will continue to rise, given that the Fed appears committed to four rate increases this year. We maintained the Fund's credit quality exposure, only slightly reducing exposure in the single B credit tier (-1.2%). From a sector and industry standpoint, we reduced the Fund's exposure to technology & electronics (-1.9%), metals and mining (-1.6%) and utilities (-0.7%). We increased our exposure to Energy (+2.0%), Financial Services (+1.1%) and Telecommunications (+1.0%).

Contributors and Detractors

Weak security selection within basic industry detracted from Fund performance in the third quarter, mainly because of one holding, New Gold, which reported disappointing results from a new project. To a lesser extent, the Information Technology and Energy sectors and the electronics industry were also detractors from performance. The Fund benefited from strong security selection and an underweight position in the retail industry, which was the worst performing industry in the high-yield market during the quarter. The Fund also benefited from strong security selection in the media and capital goods industries and the Telecommunications sector.

In terms of credit quality, weak security selection in the single-B credit tier detracted from relative Fund performance. Conversely, the Fund's underweight to the rate-sensitive double-B credit tier had a positive effect on relative performance. Additionally, the Fund benefited from strong security selection within the double-B credit tier.

A Constructive Outlook

We maintain a constructive outlook on below investment grade corporate credit. Our belief in strong earnings growth in most sectors and improving issuer fundamentals is tempered by concern about weak technical factors such as consistent high yield fund outflows and rising interest rates. We believe corporate defaults are likely to remain low, projecting them to come in below 3.0% in 2018, well below the historical average of 4.1%. We believe company balance sheets are getting stronger and leverage ratios are declining among non-investment grade companies. The Fund maintained its defensive position with a shorter duration than the benchmark as we anticipate the short end of the interest rate curve to continue to rise for the balance of the year.

Continuation of the Economic Status Quo

While we do not foresee any major fundamental concerns for high yield assets, we believe that Fed interest rate actions, oil price volatility, and rising risks of a global trade war deserve close monitoring. At the present time we believe a continuation of the status quo for the U.S. economy seems most likely, with Gross Domestic Product growth of 2.5 to 3.0%. A recession or overheating, in our view, is unlikely in the near term.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Since Inception *(11/01/2017)*	Expense Ratios Net	Expense Ratios Gross
Harbor High-Yield Opportunities Fund - INST	2.23%	N/A	N/A	N/A	1.39%	0.73%	1.08%
ICE BofAML US High Yield Index (H0A0)	2.44%	N/A	N/A	N/A	2.54%		

Sectors: As of 09/30/2018, the Harbor High-Yield Opportunities Fund had invested the following percentages of its assets in the sectors listed: Energy, 19.45%; Consumer Discretionary, 19.31%; Health Care, 10.03%; Information Technology, 9.77%; Telecommunication Services, 9.37%; Industrials, 9.00%; Financials, 7.71%; Materials, 7.46%; Consumer Staples, 2.00%; Utilities, 1.60%; Real Estate, 0.46%;

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. As of 09/30/2018, the Harbor High-Yield Opportunities Fund held the following position referenced as a percentage of the Fund's total net assets: New Gold Inc. - 0.27%.

The Fund charges a redemption fee of 1.00% on redemption of shares that are held for less than 90 days.

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 reflect a contractual management fee waiver through 02/29/2020.

The ICE BofAML US High Yield Index (H0A0) is an unmanaged index that tracks the performance of below investment grade U.S. Dollar-denominated corporate bonds publicly issued in the U.S. domestic market. All bonds are U.S. Dollar-denominated and rated Split BBB and below. These unmanaged indices do not reflect fees and expenses and are not available for direct investment.

Fixed income investments are affected by interest rate changes and the creditworthiness of the issues held by the Fund. As interest rates rise, the values of fixed income securities held by the Fund are likely to decrease and reduce the value of the Fund's portfolio. High yield investing poses additional credit risk related to lower-rated bonds.

The views expressed herein are those of the subadviser, Crescent Capital Group LP, 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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