



Harbor International Growth Fund



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3rd Quarter, 2018 Commentary

"Our bottom-up approach to stock-picking allows us to uncover quality companies that we believe are well placed to endure through market cycles." -Baillie Gifford Overseas Limited

International equity struggled in the third quarter

International markets remained weak in the third quarter of 2018, though they just scraped into positive territory in the final weeks of the period. Uncertainty in markets surrounding Brexit negotiations, trade wars and interest rate tightening likely affected the Fund, but no single event on its own was notable as having had a profound effect on the Fund this quarter.

In the third quarter, the Harbor International Growth Fund returned -1.40%, underperforming its benchmark, the MSCI All Country World Ex. US (ND) Index, which returned 0.71%. Stock selection and an overweight position in Consumer Discretionary detracted from relative results. Conversely, the Fund's relative performance benefited from stock selection in Financials. On a country basis, stock selection in China detracted from relative performance, whereas stock selection in Taiwan had a positive impact.

Baillie Gifford'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

Trade Wars Led to Investor Concerns

Along with worries about Brexit, Italian politics and the Turkish currency crisis, the main concern for international markets was centered around the potential for a global trade war. The discussion on this subject appears only to get more negative, not just as far as trade is concerned, but also in relation to the broader impacts of limits on the movement of people, and the freedom of companies that are systemically important to a country, as is the case with many of the big Chinese Information Technology names.

During the quarter, we saw weak performance from several of the Fund's China-exposed holdings. In some cases, this was a function of general weakness in the Chinese market as a period of strong performance came to an end and the prospect of a trade war raised fears for the domestic economy.

Difficult Period for Growth Equities as Value Outperformed

Our bottom-up approach to stock-picking allows us to uncover quality companies that we believe are well placed to endure through market cycles. That said, the last quarter was a challenging one for companies that typically fall into the growth bracket, some of which are large holdings in the Fund. As the U.S.-China trade spat continues, some have been caught in the crossfire, largely as a result of uncertainty rather than weak company fundamentals. Our approach remains one of patient investment in a diversified Fund of businesses we consider to be strong franchises run by sensible management.

Differentiated from the Benchmark

The Fund continued to look firmly differentiated from the benchmark through the third quarter. Consumer Discretionary and Information Technology were the Fund's most heavily overweight sectors as of September 30, whereas the largest underweights were Energy and Financials. Rising valuations, coupled with some concerns over fundamentals, prompted us to trim or sell holdings in Consumer Staples. We added to some of the Information Technology names in the



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Fund, which have performed well in share-price terms over the course of the year. While we monitor sector exposures closely, companies are not picked because of the sector they fall into, but because of their fundamentals. That being the case, the Fund's sector weightings are an output of the investment process, not an input.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Gross
Harbor International Growth Fund - INST	-1.40%	2.33%	11.25%	5.45%	5.06%	0.85%	0.92%
MSCI All Country World Ex. US (ND) Index	0.71%	1.76%	9.97%	4.12%	5.18%		

Sectors: As of 09/30/2018, the Harbor International Growth Fund had invested the following percentages of its assets in the sectors listed: Consumer Discretionary, 19.03%; Information Technology, 18.89%; Financials, 16.78%; Industrials, 15.50%; Consumer Staples, 13.72%; Health Care, 7.49%; Materials, 4.85%; Energy, 1.10%; Telecommunication Services, 1.10%;

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 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.

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.

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, Baillie Gifford Overseas Limited, 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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