



Harbor Large Cap Value Fund



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3rd Quarter, 2018 Commentary

"At Aristotle Capital, rather than worrying about the short-term impact of day-to-day news, we work to identify companies with what we believe are the quality characteristics to succeed over full market cycles." -Aristotle Capital Management, LLC

Fund advances as stock market rally continues

The U.S. equity market continued its rally in the third quarter of 2018, supported by strong economic data and corporate earnings growth. Gross Domestic Product (GDP) data released over the summer showed that the U.S. economy accelerated 4.2% on an annualized basis during the second quarter, its fastest pace in nearly four years. Consumer spending, buoyed by lower taxes, job growth and rising wages, was the key driver behind the pickup in growth. A jump in exports ahead of the scheduled implementation of new tariffs also helped. The S&P 500 Index advanced 7.71%, its best quarter since 2013, as approximately 80% of S&P 500 companies reported earnings per share above mean estimates, according to FactSet.

During the third quarter of 2018, the Harbor Large Cap Value Fund advanced 3.61%, underperforming the Fund's benchmark, the Russell 1000® Value Index, which advanced 5.70%. Stock selection drove relative underperformance during the quarter. Stock choices in Health Care, Information Technology and Materials detracted from relative performance. In contrast, stock selection in Consumer Staples, contributed to relative returns. Sector allocation was an overall relative contributor. The Fund's sector weightings are purely a residual outcome of the bottom-up stock selection process, but favorable underweights and stock selection in Real Estate and Utilities bolstered relative performance. A favorable overweight to Information Technology also helped mitigate underperformance.

Aristotle Capital'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 Difficult Environment for the Short-Term

We focus our intellectual capital on understanding long-term business values, independent of market conditions. With that said, from time to time, particularly over short periods of time, market conditions can create a headwind to short-term performance. The realization of investment catalysts is not a linear process, and stock selection proved to have a negative impact during the third quarter of 2018.

How We Choose a New Investment

During the quarter, we initiated positions in three stocks. In each case, our process starts by identifying companies with high-quality characteristics, such as high barriers to entry and predictable revenues. Once we are comfortable that a company meets our quality criteria, we analyze the company's valuation, identifying what we believe is a "valuation gap" between intrinsic value and the market's view of the company. That may reach beyond traditional valuation metrics, and can focus on finding a risk/reward tradeoff that's attractive to us. Next, we look for catalysts, identifying the keys that we believe have the potential to close the companies' valuation gap over our three- to five-year time horizon. Those may include favorable demographic trends, potentially increasing pricing power, monetization opportunities or other improvements and enhancements. Only then, with a complete understanding of the long-term fundamentals, do we invest.



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Tuning Out the Noise to Focus on Long-Term Performance

From the escalating U.S./China trade conflict to what some are calling the end of an era of “accommodative” monetary policy, there has been plenty of news to digest. These events make for interesting talking points, but for long-term investors, it is important to consider whether the news is anything more than that. Are these events and trends truly analyzable, differentiated and meaningful from a long-term perspective? We do not spend much time on how the market may react, nor do we attempt to reposition our portfolio based on those assumptions. At Aristotle Capital, rather than worrying about the short-term impact of day-to-day news, we work to identify companies with what we believe are the quality characteristics to succeed over full market cycles. We believe that long-term thinking distinguishes us from our competitors, helping us to identify companies that possess sustainable competitive advantages and appear poised to outperform their peers.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Large Cap Value Fund - INST	3.61%	10.37%	16.38%	13.00%	10.41%	0.68%	0.72%
Russell 1000® Value Index	5.70%	9.45%	13.55%	10.72%	9.79%		

Sectors: As of 09/30/2018, the Harbor Large Cap Value Fund had invested the following percentages of its assets in the sectors listed: Financials, 20.30%; Information Technology, 18.89%; Health Care, 14.06%; Consumer Staples, 10.23%; Industrials, 9.62%; Consumer Discretionary, 7.49%; Energy, 6.64%; Materials, 4.63%; Real Estate, 2.52%; Utilities, 2.00%;

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 Russell 1000® Value Index is an unmanaged index generally representative of the U.S. market for larger capitalization value stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 1000® Value Index and Russell® are trademarks of Frank Russell Company.

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.

Since the Fund may hold foreign securities, it may be subject to greater risks than funds invested only in the U.S. These risks are more severe for securities of issuers in emerging market regions.

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, Aristotle 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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