



Harbor Money Market Fund



Kenneth O'Donnell, CFA

2nd Quarter, 2017 Commentary

"The tightening cycle has generated opportunities to tactically position the portfolio ahead of each FOMC meeting." -BNP Paribas Asset Management USA, Inc.

Fund keeps pace as rate tightening continues

The global macro environment continued to improve in the second quarter of 2017, with several major central banks contemplating reductions in monetary stimulus. Fixed income markets trended sideways in a tight range across most major economies. Populist political challenges were averted in European elections, calming markets and paving the way for a general improvement in sentiment. Although U.K. Brexit negotiations continue to weigh on markets, deflationary concerns subsided as inflationary pressures edged higher across Europe.

In contrast, U.S. investor sentiment weakened in the second quarter in response to both softer economic data and a seemingly ineffective Trump administration. In June, the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve (Fed) raised its target for short-term interest rates by 25 basis points for the third time since December. Short-term yields closely tracked expectations for monetary policy rates. Markets are currently pricing in a 16% probability of an additional tightening measure in the third quarter. Collectively, yield changes served to flatten the curve as short-term yields climbed in excess of intermediate yields.

Against this backdrop, the Harbor Money Market Fund returned 0.20% for the second quarter of 2017. The Fund performed in line with the 0.20% return of the Fund's index, the BofA Merrill Lynch US 3-Month Treasury Bill Index, after fees. Portfolio returns benefitted from excess yield associated with agency discount notes. Duration and yield curve positioning modestly contributed to performance.

BNP Paribas Asset Management USA, Inc.'s comments were made in a July, 2017 report. Highlights adapted from the report appear below. All comments relate to the quarter ended June 30, 2017, unless otherwise indicated. All references to the year-to-date are for the period January 1 through June 30, 2017.

HIGHLIGHTS

Fund Returns Tick Up With Fed Moves

Absolute performance improved from the prior quarter largely in response to a tightening of monetary policy in March and again in June. Short-term yields quickly adjusted to rising policy rates with expectations for further increases, as labor data continues to support monetary policy tightening.

Tactical Adjustments Pay Off

The tightening cycle has generated opportunities to tactically position the portfolio ahead of each FOMC meeting. Markets have tended to underprice policy-tightening steps in the early stages of the cycle. Portfolio duration was lengthened in the weeks ahead of the June meeting, as markets had fully priced the move. Tactical positioning enabled the portfolio to capture the additional yield as interest rate markets repriced.

Softer U.S. Data Changes Expectations

We believe our expectations for the pace of monetary policy are consistent with the FOMC. Softer inflation data raised concerns that improvements in core Personal Consumption Expenditures (PCE) had stalled below Federal Reserve targets. Softer data, on the margin, suggests a slower pace of tightening than expected earlier in the year.

Looking Ahead with a Bit Less Optimism

Our market outlook became less optimistic, on the margin, during the current quarter in response to weaker economic data despite improving market sentiment around the globe.



Harbor Money Market Fund

Volatility has declined significantly, raising fears that market events could potentially roil markets. The global economic environment has improved, reducing headwinds to U.S. economic growth, but we believe a return to 3.0% growth rates in the near term may be difficult to achieve.

Total Returns

As of 06/30/2017

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Money Market Fund - INST	0.20%	0.53%	0.26%	0.19%	0.64%	0.28%	0.37%
BofA Merrill Lynch US 3-Month Treasury Bill Index	0.20%	0.49%	0.23%	0.17%	0.58%		

Current 7-Day Subsidized SEC Yield – INST Class: 0.93%. Average annualized income dividend over the last 7 days. Reflects reimbursements or waivers of fees currently in effect.

Current 7-Day Unsubsidized SEC Yield – INST Class: 0.57%. Average annualized income dividend over the last 7 days. Does not reflect reimbursements or waivers of fees currently in effect.

Current yield is annualized and excludes gains and losses as defined by the Securities and Exchange Commission. The current yield more closely reflects the current earnings of the Harbor Money Market Fund than the total return.

Sectors: As of 06/30/2017, the Harbor Money Market Fund had invested the following percentages of its assets in the sectors listed: Government Agency Debt, 59.40%; Treasury Debt, 40.61%; Repurchase Agreements, 0.09%;

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 www.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 reflect a contractual management fee waiver and are contractually capped, excluding interest expense (if any), through 02/28/2018, as well as a voluntary fee waiver that may be discontinued at any time.

The BofA Merrill Lynch US 3-Month Treasury Bill Index is comprised of a single U.S. Treasury Bill issue purchased at the beginning of each month and held for a full month, at which time that issue is sold and rolled into a newly selected issue. The issue selected each month is that having a maturity date closest to, but not beyond 90 days from the rebalance date.

You could lose money by investing in the Harbor Money Market Fund. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the FDIC or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and you should not expect the sponsor to provide financial support to the Fund at any time.

The views expressed herein are those of the subadviser, BNP Paribas Asset Management USA, Inc., 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 www.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.