



Harbor Money Market Fund



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3rd Quarter, 2018 Commentary

"We continue to actively manage the Fund's sensitivity to rising interest rates in response to market expectations for future tightening steps by the Fed." -BNP Paribas Asset Management USA, Inc.

Treasury yields continue to track monetary policy rates

Growth stabilized in the third quarter of 2018 after the strong rebound in the second quarter. Led by the Federal Reserve, major central banks around the globe have taken early steps toward a reduction in monetary policy stimulus. The European Central Bank is nearing the end of its balance sheet asset purchases this December, while the Bank of England tightened monetary policy rates in August for the second time this cycle. In Asia, the Bank of Japan has been discussing adjustments to policy measures after adjusting the formal target range of 10-year JGB yields.

In the U.S., investor sentiment improved in the third quarter despite fears of trade wars. Benchmark U.S. 10-year yields rose above 3%, averaging 2.92% throughout the three-month period. Short-term yields continued to track monetary policy rates with expectations for tightening rising steadily in the weeks leading up to the September rate hike. Markets are currently pricing a greater than 70% probability of an additional rate hike in December.

Against this backdrop, the Harbor Money Market Fund returned 0.42% for the third quarter of 2018. The Fund underperformed the 0.49% return of its benchmark, the ICE BofAML U.S. 3-Month Treasury Bill Index, after fees. U.S. Treasury bill yields climbed as markets traced the path of monetary policy rates ahead of the September Federal Open Market Committee (FOMC) meeting. Three-month T-bills outperformed shorter maturity money market instruments during the period, which hindered the Fund's performance relative to the longer maturity benchmark.

Comments by BNP Paribas Asset Management USA 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

Active Duration Management Remains a Focus

Valuations in money market securities remain closely tied to monetary policy. We believe that increased activity from the Federal Reserve (Fed) has made tactical yield curve positioning and active duration management more valuable. We continue to actively manage the Fund's sensitivity to rising interest rates in response to market expectations for future tightening steps by the Fed. Sector allocations remained relatively stable during the third quarter, with a slightly higher concentration in U.S. Treasury bills than last quarter given the yield differential versus comparable-duration agency discount notes.

Market Disruptions Provide Opportunities

Our expectations for additional Fed tightening in the 2018 calendar year increased during the third quarter. Markets are currently forecasting a strong probability for additional tightening in December, and we believe the Fed is likely to proceed at a quarterly pace of policy tightening through early 2019. The tightening cycle has historically generated opportunities to tactically position the Fund ahead of each FOMC meeting. While in our view, markets have more recently fully priced in expected policy tightening measures, external market disruptions are providing us with tactical positioning opportunities.

Increased Volatility Begets Cautious Optimism

Continued improvement in the global economic environment coupled with a decline in deflationary concerns has reduced headwinds to U.S. economic growth, in our view. The U.S.



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labor sector is operating at full employment with shortages beginning to appear in several segments. Wage pressures are likely to follow as a result of a labor shortage, which may result in inflationary pressures. We became marginally more optimistic during the third quarter in response to improving global market sentiment, though we remain cautious as volatility has returned amid trade discussions, raising risks of a market disruption.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Money Market Fund - INST	0.42%	1.36%	0.77%	0.49%	0.35%	0.28%	0.35%
ICE BofAML US 3-Month Treasury Bill Index	0.49%	1.59%	0.84%	0.52%	0.34%		

Current 7-Day Subsidized SEC Yield – INST Class: 1.78%. 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: 1.71%. 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 09/30/2018, the Harbor Money Market Fund had invested the following percentages of its assets in the sectors listed: Government Agency Debt, 55.74%; Treasury Debt, 43.07%; Repurchase Agreements, 0.13%;

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 a contractual management fee waiver and an expense limitation agreement, excluding interest expense, if any, through 02/29/2020.

Duration is a commonly used measure of the sensitivity of the price of a debt security, or the aggregate market value of a portfolio of debt securities, to a change in interest rates. Securities with a longer duration are more sensitive to changes in interest rates and generally have more volatile prices than securities of comparable quality with a shorter duration.

The ICE BofAML 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 harborfunds.com or by calling 800-422-1050. Read it carefully before investing.

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