



Harbor Small Cap Growth Opportunities Fund



Cam Philpott, CFA



David Hand, CFA



Hiren Patel, Ph.D.



Sean McGinnis, CFA

3rd Quarter, 2018 Commentary

"In this potentially volatile environment, it is important to reiterate that we continue to stay disciplined and committed to our longstanding investment style and process." -Elk Creek Partners, LLC

Fund outperforms as U.S. stocks rally through concerns about trade

Once again, U.S. equity markets performed well during the third quarter of 2018. Macroeconomic data continued to be robust, and the strength of economic activity continued to be broad-based, benefiting multiple sectors. Corporate earnings reports were strong and, broadly speaking, greeted favorably by investors. The Manager believes revenue results for many companies were better than expected, and that lower tax rates continued to benefit results compared to the year prior. With a strong U.S. Dollar, foreign currency translation was a frequent topic on recent earnings calls, and recognized as a headwind to results from overseas. With Congressional midterm elections to be held in November, 2018, the Manager believes they could become a source of investor anxiety. Within the U.S. small cap growth universe, as measured by the Fund's benchmark, the Russell 2000® Growth Index, nearly all sectors advanced.

Against this backdrop, the Harbor Small Cap Growth Opportunities Fund returned 7.99% during the third quarter, outperforming the benchmark, which posted a return of 5.52%. In sector terms, stock selection in Health Care was the key driver of outperformance. Stock choices in Consumer Staples, Telecommunication Services and Energy contributed substantially to relative results. An overweight to Telecommunication Services, the benchmark's strongest sector during the quarter, was also beneficial. In contrast, security selection in Industrials and, to a lesser extent, Information Technology, weighed on relative performance.

Elk Creek Partners' 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

Sticking to Growth Opportunities

Volatility returned to U.S. markets in early 2018, and continued through the end of the third quarter, so market conditions remained favorable for fundamental active growth managers, which helped the Fund outperform. During the reporting period, we reduced some positions due to price appreciation, and we exited some positions entirely upon achieving price targets. That is consistent with our typical behavior. The Fund's sector weightings are purely a residual outcome of our bottom-up stock selection process, but our sector weightings have not dramatically changed in 2018. Approximately 80% of the portfolio is invested in the four sectors: Information Technology, Health Care, Industrials and Consumer Discretionary. In our view, those groups represent a majority of the growth in the benchmark.

Trade Spat Continues to Escalate, but Investor Worries Dissipate

During the third quarter, international trade tensions remained a market theme, as both the U.S. and Chinese governments enacted more tariffs. When tariffs were initially raised earlier this year, markets were quite volatile, and investors seemed nervous about potential negative consequences of higher barriers to global trade. In our view, while those concerns linger, investors are not as anxious about potential economic contraction from rising trade barriers. We believe that while tariffs are broadly considered a headwind to growth, the perceived magnitude of that headwind—and its ability to disrupt current growth—has changed.

Looking Ahead With Optimism Despite Some Concerns

As the final quarter of the year begins, equities have performed well year-to-date, providing investors with a boost of optimism. Even with that positive backdrop, investors are definitely



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treating sectors differently. Some areas of the market, such as transportation stocks, seem to have made investors more anxious, and concerned about continued earnings growth. In other areas with underlying cyclicalities, within Information Technology for example, valuations are near all-time highs, and investors do not seem as anxious about the potential deceleration of earnings growth. In this potentially volatile environment, it is important to reiterate that we continue to stay disciplined and committed to our longstanding investment style and process. We remain optimistic about the fundamentals of the holdings in the portfolio, and we look forward to upcoming earnings reports.

Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Since Inception (02/01/2014)	Expense Ratios Net	Expense Ratios Gross
Harbor Small Cap Growth Opportunities Fund - INST	7.99%	26.59%	18.74%	N/A	11.40%	0.89%	0.89%
Russell 2000® Growth Index	5.52%	21.06%	17.98%	N/A	11.60%		

Sectors: As of 09/30/2018, the Harbor Small Cap Growth Opportunities Fund had invested the following percentages of its assets in the sectors listed: Health Care, 25.54%; Information Technology, 24.42%; Industrials, 17.40%; Consumer Discretionary, 13.92%; Financials, 6.87%; Energy, 3.69%; Consumer Staples, 2.54%; Telecommunication Services, 2.00%; Utilities, 0.86%;

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 Russell 2000® Growth Index is an unmanaged index representing the smallest 2000 stocks with the highest price-to-book ratio and future earnings. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 2000® Growth Index and Russell® are trademarks of Frank Russell Company.

Stocks of small cap companies pose special risks, including possible illiquidity and greater price volatility than stocks of larger, more established companies.

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, Elk Creek Partners, 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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