



Harbor Small Cap Value Fund



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3rd Quarter, 2018 Commentary

"In the third quarter, the equity market environment was more favorable for our investment approach." -EARNEST Partners LLC

Strong year for small cap stocks continues into third quarter

U.S. small cap stocks posted gains in the third quarter of 2018 amid continued positive performance for equities generally. Against this backdrop, the Harbor Small Cap Value Fund generated a return of 2.38% during the quarter, outperforming its benchmark, the Russell 2000® Value Index, which returned 1.60%.

Overall, both stock selection and sector weightings contributed to relative performance. Industrials and Health Care were the largest drivers of outperformance, due primarily to stock selection. Overweights in both sectors also helped relative performance. Conversely, stock selection in Information Technology and Financials weighed on relative results. The Fund's sector weightings are purely a residual outcome of the bottom-up stock selection process.

EARNEST 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

Market Rewards Fundamentals

In the third quarter, the equity market environment was more favorable for our investment approach. The market rewarded strong company fundamentals and put less value on speculative stocks. We did not introduce any new themes or trends into the Fund's portfolio during the quarter. We continue to position the Fund based on the underlying fundamentals of individual companies and our view on the growth prospects of companies relative to what is currently reflected in their stock prices.

Where We Found Opportunities

The Fund entered the quarter with a relative overweight to Information Technology, where we have found more attractive individual opportunities relative to other sectors. Our views on the Fund's Information Technology holdings have remained consistent since last quarter, and the Fund has continued to maintain a healthy overweight. Conversely, the Fund entered the third quarter with a relative underweight to Financials. Within that sector, we have found fewer individual opportunities among banks, and relatively more in insurance companies and diversified financial institutions, both industries in which the Fund has relative overweights. We have maintained the same view on Financials over recent quarters, though the overall sector underweight has become less severe with the addition of more banks over recent quarters. The Fund's sector weightings are a result of our bottom-up stock selection process.

We Evaluate Stocks One at a Time

EARNEST Partners does not forecast or provide a formal outlook on the broader equity market. Instead, we focus on a company's individual opportunities to grow earnings and take market share. Opportunities like those present themselves in all types of market environments, including today's. Our view on what ultimately drives relative returns has not changed, and is inherent in our ability to identify and take advantage of mispricings in the market on an individual stock-by-stock basis.



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Total Returns

As of 09/30/2018

	Three Months	One Year	Three Years	Five Years	Ten Years	Expense Ratios Net	Expense Ratios Gross
Harbor Small Cap Value Fund - INST	2.38%	11.25%	18.26%	11.98%	11.14%	0.88%	0.88%
Russell 2000® Value Index	1.60%	9.33%	16.12%	9.91%	9.52%		

Sectors: As of 09/30/2018, the Harbor Small Cap Value Fund had invested the following percentages of its assets in the sectors listed: Industrials, 27.01%; Financials, 22.65%; Information Technology, 19.89%; Health Care, 7.26%; Energy, 5.61%; Real Estate, 4.37%; Consumer Discretionary, 3.40%; Materials, 2.90%; Consumer Staples, 2.77%; Utilities, 1.36%;

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® Value Index is an unmanaged index representing the smallest 2000 stocks with the lowest 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® Value 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 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, EARNEST 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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