



Harbor Strategic Growth Fund



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4th Quarter, 2017 Commentary

"Investment bargains are elusive, but we believe that companies that compound owners' earnings become increasingly attractive with the passage of time." -Mar Vista Investment Partners, LLC

A favorable environment for stocks in the fourth quarter of 2017

The stimulative tax reform bill enacted at the end of 2017 pushed the gas pedal further on an already accelerating global economic outlook. The combination of stronger expectations for global growth with low interest rates and stable inflation created a very favorable risk-on environment for all assets in the fourth quarter of 2017.

The Harbor Strategic Growth Fund returned 6.44% during the fourth quarter, underperforming its benchmark, the Russell 1000® Growth Index, which returned 7.86%. Stock selection in Financials and Consumer Staples weighed on relative returns. Conversely, stock selection in Consumer Discretionary had a positive effect.

Mar Vista's comments were made in a January, 2018 report. Highlights adapted from the report appear below. All comments relate to the quarter ended December 31, 2017, unless otherwise indicated. All references to the year-to-date are for the period January 1 through December 31, 2017.

HIGHLIGHTS

Market Conditions Were Again Mixed for Our Strategy

From an absolute viewpoint, market conditions in the fourth quarter were favorable for our approach. The combination of low and stable interest rates with modest global economic growth typically bodes well for higher quality businesses. From a relative viewpoint, however, our more conservative positioning compared to the high growth areas of the benchmark had a negative impact on relative performance. On average during the quarter, three traditional growth sectors accounted for nearly 70% of the Russell 1000® Growth Index: Information Technology (38%), Consumer Discretionary (18%) Health Care (13%). However, those sectors in aggregate represented only 40% of the Fund's portfolio on average during the quarter. Our portfolio construction process focuses on bottom-up factors independent of benchmark weights, and therefore our weightings do not represent an expressed opinion on individual sectors from a macro level. The Fund's larger sector exposures represent the areas in which we are finding skewed risk/reward opportunities in businesses that compound earnings.

Impact from Tax Reform

Tax reform increased the value of many of the Fund's holdings, although the probability of this scenario was already incorporated into our analyses. Our expectations for faster near-term economic growth translated to higher expected cash flows for cyclical businesses, but this change had minimal impact on the opportunity set for new investments. While faster Gross Domestic Product (GDP) growth modestly increases the near-term cash flow for cyclically exposed businesses, it has only a modest impact on our estimates for intrinsic value. Similarly, lower corporate taxes bump intrinsic value for all U.S. tax paying businesses, but that increase in value was appropriately reflected by the market and did not directly influence our portfolio's composition.

Near-Term Caution, Long-Term Optimism

Overall, we are satisfied with the compounded intrinsic value growth of our investments. However, the extended bull market has reduced the discount to intrinsic value of the Fund's



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portfolio holdings to 7%. This discount is near an all-time low, and well below its historical 20 to 35% range. We cautiously remind our investors that downside risks have a way of sneaking up on markets during periods of increasing optimism. Although behavioral biases may influence near-term stock performance, we strongly believe that business economics matter more over time. Investment bargains are elusive, but we believe that companies that compound owners' earnings become increasingly attractive with the passage of time. We will continue to identify these unique franchises and wait patiently for markets to offer them at discounts.

Total Returns

As of 12/31/2017

	Three Months	One Year	Three Years	Five Years	Since Inception (11/01/2011)	Expense Ratio Net	Expense Ratios Gross
Harbor Strategic Growth Fund - INST	6.44%	25.25%	10.75%	15.42%	15.09%	0.70%	0.91%
Russell 1000® Growth Index	7.86%	30.21%	13.79%	17.33%	16.42%		

Sectors: As of 12/31/2017, the Harbor Strategic Growth Fund had invested the following percentages of its assets in the sectors listed: Information Technology, 20.78%; Industrials, 19.58%; Financials, 15.71%; Consumer Discretionary, 13.33%; Consumer Staples, 7.10%; Health Care, 5.48%; Real Estate, 4.58%; Materials, 4.31%; Energy, 4.18%;

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 contractually capped, excluding interest expense, if any, and the acquired fund fees and expenses, through 02/28/2019.

The Russell 1000® Growth Index is an unmanaged index generally representative of the U.S. market for larger capitalization growth stocks. This unmanaged index does not reflect fees and expenses and is not available for direct investment. The Russell 1000® Growth 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.

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, Mar Vista Investment 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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